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This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities or an invitation to enter into an agreement to do any such things, nor is it calculated to invite any offer to acquire, purchase or subscribe for any securities. This announcement is not for distribution, directly or indirectly, in or into the United States or to U.S. persons (as defined in the United States Securities Act of 1933, as amended). Moreover, this announcement is not an offer of securities for sale in the United States or to U.S. persons. The Notes may not be offered or sold in the United States or to U.S. persons absent registration or an exemption from registration under the United States Securities Act of 1933, as amended. The Issuer does not intend to register any part of the proposed offering in the United States and there will be no public offer of securities in the United States or to U.S. persons. The securities described herein will be sold in accordance with all applicable laws and regulations.

***This announcement and the listing document 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 document) forms the basis for any contract or commitment whatsoever.** For the avoidance of doubt, the publication of this announcement and the listing document 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 and in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) 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.

HKMC

THE HONG KONG MORTGAGE CORPORATION LIMITED
香港按揭證券有限公司
(**Issuer**)
(incorporated with limited liability under the Companies Ordinance of Hong Kong)

Issue of U.S.$50,000,000 0.39 per cent. Notes due 4 February 2022
(**Notes**)
(Stock Code: 40587)

to be issued under the Issuer's U.S.$12,000,000,000 Medium Term Note Programme

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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 (as defined in the Offering Circular), 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.$12,000,000,000
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)** entered into a U.S.$3,000,000,000 Medium Term Note Programme **(Programme**, as amended, supplemented or restated) 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, and to U.S.$12,000,000,000 on 26 June 2020. 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 (respectively **Bearer Notes** and **Registered Notes**). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$12,000,000,000 (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 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 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 and in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (together, **Professional Investors**)) only during the 12-month period from the date of this document on the SEHK. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

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 and 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 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.

See "*Risk Factors*" beginning on page 61 for a discussion of certain factors to be considered in connection with an investment in the Notes.

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.

IMPORTANT — EEA and 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 European Economic Area (**EEA**) or 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 (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 or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the 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 supplementary 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 59 of this Offering Circular.

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 2020.

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. 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. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the 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. The Issuer and the Dealers do not 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 or the Dealers 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 United Kingdom and The Netherlands), Japan, the Hong Kong Special Administrative Region (Hong Kong), the People's Republic of China (PRC or Mainland China) and Singapore, see "*Subscription and Sale*".

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) 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 Dealers or the Issuer 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 United Kingdom and 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 and to "CNH", "CNY", "RMB" or "Renminbi" refer to the currency of the PRC. 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.

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 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.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the principal 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) for any Notes listed on the SEHK.

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 supplementary 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 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 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 the SEHK during the period of 12 months from 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.$12,000,000,000 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 under "*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 "*Subscription and Sale*") including the following restrictions applicable as at the date of this Offering Circular.

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 "*Subscription and Sale*".

Principal Paying Agent: Citibank, N.A., London Branch

Transfer Agent: Citibank, N.A., London Branch

Registrar: Citigroup Global Markets Europe AG (formerly known as Citigroup Global Markets Deutschland AG)

CMU Lodging Agent: Citibank, N.A., Hong Kong Branch

Programme Size:	Up to U.S.$12,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") 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 "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.
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:	Floating Rate Notes will bear interest at a rate determined: (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 the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of Notes of the relevant Series); (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; 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.
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:	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. 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.
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 (as defined in Condition 10)) 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 (as defined in Condition 8), 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 "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:	Application has been made to the SEHK for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from 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. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s). 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).

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 Service, Euroclear, Clearstream and/or any other clearing system, as specified in the applicable Pricing Supplement, see "*Form of the Notes*".
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 United Kingdom and The Netherlands), 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 "*Subscription and Sale*".
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 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 Service (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 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 Service**). 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 for (i) 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 Service 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 Instrument Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) 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 Service, 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 Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) 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 Service, 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 Service, the CMU Service 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 Service, 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 Service, 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 Paying Agent 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 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, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar 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 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.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicabl e 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 and Clearstream , 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 Service, each person (other than Euroclear, Clearstream or the CMU Service) who is for the time being shown in the records of Euroclear, Clearstream or the CMU Service 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 Service 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 Service, 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 Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

Any reference herein to Euroclear and/or Clearstream and/or the CMU Service 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 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 Service, 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 Service on and subject to the terms of a deed of covenant (**Deed of Covenant**) dated 19 June 2009 executed by the Issuer.

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] under the U.S.$12,000,000,000 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 2020 [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 and in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (together, the **Professional Investors**)) only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

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 and 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 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 Supplementary 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. 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)]

PROHIBITION OF SALES TO EEA AND 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 European Economic Area (**EEA**) or 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 (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 (the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) 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).[(2)]

[*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:	[ ]
			(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)

(1) Legend for issuances involving one or more MiFID Firm manufacturers.
(2) 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.

	(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] [*identify earlier Tranches*] 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:		[ ]
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*]][(3)]
9.	Interest Basis:	[[ ] per cent. Fixed Rate] [[LIBOR / EURIBOR / HIBOR / CNH HIBOR / SIBOR / SOR / BBSW] 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][(4)]
14.	Method of distribution:	[Syndicated / Non-syndicated]

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

(4) 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*][(5)] *(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[(6)]
(iv)	Broken Amount(s) for Notes in definitive form *(and in relation to Notes in global form, see Condition 5(a))*:	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ] / Not Applicable]
(v)	Day Count Fraction:	[Actual/Actual (ICMA)] [30/360] [Actual/365 (Fixed)[(7)]] [*Specify other*]

(5) Note that for certain Hong Kong dollar and Renminbi denominated Fixed Rate Notes 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 [ ]]."

(6) For Hong Kong dollar and Renminbi denominated Fixed Rate Notes 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)(i)) divided by 365 and rounding the resultant figure to the nearest [HK$0.01, HK$0.005/CNY0.01, CNY0.005] being rounded upwards."

(7) Applicable to Hong Kong dollar and Renminbi denominated Fixed Rate Notes.

	(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]

(vi)	Screen Rate Determination:	
	(a) Reference Rate:	[ ]
		(Either LIBOR, EURIBOR, HIBOR, CNH HIBOR, SIBOR, SOR, BBSW or other, although additional information is required if other — including fallback provisions in the Agency Agreement.)
	(b) Interest Determination Date(s):	[ ]
		(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar HIBOR, the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR, the second Hong Kong business day prior to the start of each Interest Period if CNH HIBOR or the second business day prior to start of each Interest Period if SIBOR or SOR.)
	(c) 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.)
(vii)	ISDA Determination:	[Applicable / Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph.)
	(a) Floating Rate Option:	[ ]
	(b) Designated Maturity:	[ ]
	(c) Reset Date:	[ ]
		(In the case of a LIBOR, EURIBOR, HIBOR or CNH HIBOR based option, the first day of the Interest Period.)
(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:	[As set out in the Conditions / *Specify other*]

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][(8)]] [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][(8)]] [Registered Notes: Registered Global Note ([*currency*] [ ] *nominal amount*) registered in the name of a nominee for a common depositary for Euroclear and Clearstream]
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*]

(8) 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 Service, 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 Frankfurt:	[Not Applicable / Luxembourg]
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

[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.$12,000,000,000 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 (**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 26 June 2020 and made between the Issuer, Citibank, N.A., London Branch as principal paying agent and agent bank (**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 Citigroup Global Markets Europe AG 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 Service (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 (such 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 depositary 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 Service**), each person (other than Euroclear, Clearstream or the CMU Service) who is for the time being shown in the records of Euroclear, Clearstream or the CMU Service 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 Service 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 Service, 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 Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

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 Service, as the case may be. References to Euroclear, Clearstream and/or the CMU Service 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 or Clearstream, 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 or Clearstream, 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 Service 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 deter mined 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 the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (**ISDA Definitions**) and under which:

(1) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (**LIBOR**), on the Euro inter-bank offered rate (**EURIBOR**), on the Hong Kong inter-bank offered rate (**HIBOR**) or on the CNH Hong Kong inter-bank offered rate (**CNH HIBOR**), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** 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 SIBOR, SOR or BBSW

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. (London time, in the case of a determination of LIBOR, or 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 the Singapore dollar interbank offer rate (SIBOR) or the Singapore dollar swap offer rate (SOR)

(1) Each Floating Rate Note where the Reference Rate is specified as being SIBOR (in which case such Note will be a **SIBOR Note**) or SOR (in which case such Note will be a **Swap Rate Note**) bears interest at a floating rate determined by reference to SIBOR or, as the case may be, SOR, as specified in the applicable Pricing Supplement.

(2) The Rate of Interest payable from time to time in respect of each Floating Rate Note under this Condition 5(b)(ii)(C) will be determined by the Principal Paying Agent on the basis of the following provisions:

(aa) in the case of Floating Rate Notes which are SIBOR Notes:

I. the Principal Paying Agent will, at or about the Relevant Time on the relevant Interest Determination Date in respect of each Interest Period, determine the Rate of Interest for such Interest Period which shall be the offered rate for deposits in Singapore dollars for a period equal to the duration of such Interest Period which appears on the Reuters Screen ABSIRFIX01 page under the caption "ABS SIBOR FIX — SIBOR AND SWAP OFFER RATES — RATES AT 11:00 HRS SINGAPORE TIME" and the column headed "SGD SIBOR" (or such other Relevant Screen Page) plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any);

II. if no such rate appears on Reuters Screen ABSIRFIX01 Page (or such other Relevant Screen Page) or if Reuters Screen ABSIRFIX01 Page (or such other Relevant Screen Page) is unavailable for any reason, the Principal Paying Agent will request the Reference Banks to provide the Principal Paying Agent with the rate at which deposits in Singapore dollars are offered by it at approximately the Relevant Time on the Interest Deter mination Date to prime banks in the Singapore inter-bank market for a period equivalent to the duration of such Interest Period commencing on such Interest Payment Date in an amount comparable to the aggregate nominal amount of the relevant Floating Rate Notes. The Rate of Interest for such Interest Period shall be the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of such offered quotations, plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any) as determined by the Principal Paying Agent;

III. if on any Interest Determination Date two but not all the Reference Banks provide the Principal Paying Agent with such quotations, the Rate of Interest for the relevant Interest Period shall be deter mined in accordance with paragraph II. above on the basis of the quotations of those Reference Banks providing such quotations plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any); and

IV. if on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with such quotations, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines to be the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of the rates quoted by the Reference Banks or those of them (being at least two in number) to the Principal Paying Agent at or about the Relevant Time on such Interest Determination Date as being their cost (including the cost occasioned by or attributable to complying with reserves, liquidity, deposit or other requirements imposed on them by any relevant authority or authorities) of funding, for the relevant Interest Period, an amount equal to the aggregate nominal amount of the relevant Floating Rate Notes for such Interest Period by whatever means they determine to be most appropriate or if on such Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with such quotation, the rate per annum which the Principal Paying Agent determines to be arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of the prime lending rates for Singapore dollars quoted by the Reference Banks at or about the Relevant Time on such Interest Determination Date plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any),

provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be 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 Accrual Period in place of the Margin relating to that last preceding Interest Accrual Period);

(bb) in the case of Floating Rate Notes which are Swap Rate Notes:

I. the Principal Paying Agent will, at or about the Relevant Time on the relevant Interest Determination Date in respect of each Interest Period, determine the Rate of Interest for such Interest Period as being the rate which appears on the Reuters Screen ABSFIX01 Page under the caption "SGD SOR rates as of 11:00 hrs London Time" under the column headed "SGD SOR" (or such replacement page thereof for the purpose of displaying the swap rates of leading reference banks) at or about the Relevant Time on such Interest Determination Date and for a period equal to the duration of such Interest Period plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any);

II. if on any Interest Determination Date, no such rate is quoted on Reuters Screen ABSFIX01 Page (or such other replacement page as aforesaid) or Reuters Screen ABSFIX01 Page (or such other replacement page as aforesaid) is unavailable for any reason, the Principal Paying Agent will determine the Rate of Interest for such Interest Period as being the rate (or, if there is more than one rate which is published, the arithmetic mean of those rates (rounded up, if necessary, to the nearest 1/16 per cent.)) for a period equal to the duration of such Interest Period published by a recognised industry body where such rate is widely used (after taking into account the industry practice at that time), or by such other relevant authority as the Principal Paying Agent may select plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any);

III. if on any Interest Determination Date the Principal Paying Agent is otherwise unable to determine the Rate of Interest under paragraphs (I) and (II) above, the Rate of Interest shall be determined by the Principal Paying Agent to be the rate per annum equal to the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of the rates quoted by the Reference Banks or those of them (being at least two in number) to the Principal Paying Agent at or about the Relevant Time on such Interest Determination Date as being their cost (including the cost occasioned by or attributable to complying with reserves, liquidity, deposit or other requirements imposed on them by any relevant authority or authorities) of funding an amount equal to the aggregate nominal amount of the relevant Floating Rate Notes for such Interest Period by whatever means they determine to be most appropriate, or if on such Interest Determination Date, one only or none of the Reference Banks provides the Principal Paying Agent with such quotation, the Rate of Interest for the relevant Interest Period shall be the rate per annum equal to the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of the prime lending rates for Singapore Dollars quoted by the Reference Banks at or about the Relevant Time on such Interest Determination Date plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any); and

IV. if paragraph III. above applies and the Principal Paying Agent determines that fewer than two Reference Banks are quoting the rate as being their cost of funding or quoting the prime lending rates for Singapore Dollars on such Interest Determination Date, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date.

(cc) On the last day of each Interest Period, the Issuer will pay interest on each Floating Rate Note to which such Interest Period relates at the Rate of Interest for such Interest 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; and

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

Reference Banks means, in the case of a determination of SIBOR or SOR, the principal Singapore offices of each of the three major banks in the Singapore interbank market.

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

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; and

Relevant Time means in the case of a determination of SIBOR, 11:00 a.m. (Singapore time) and in the case of a determination of SOR, 11:00 a.m. (London time).

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 LIBOR or EURIBOR or HIBOR or CNH HIBOR or SIBOR or SOR or BBSW, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(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:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"D_2" 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 D_1 is greater than 29, in which case D_2 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:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" 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 D_2 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:

"$Y1_1$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" 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 D_1 will be 30; and

"D_2" 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 D_2 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

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*); 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*);

(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*). 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.

For the purposes of this Condition 5(b)(vii) (*Benchmark Replacement*):

Adjustment Spread means a spread (which may be positive or negative) 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:

(i) such Reference Rate ceasing 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 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; or

(v) 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;

Margin has the meaning given in the relevant Pricing Supplement;

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 (**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 Service 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 Service, 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 Service (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 Service 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 Service, 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 Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

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 Service, to the person(s) for whose account(s) interests in the relevant Global Note are credited as being held by the CMU Service in accordance with the CMU Rules, or (ii) in the case of a Global Note not lodged with the CMU Service, 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 Service) 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 Service) 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 Service) or (if the Global Note is lodged with the CMU Service) the person(s) for whose account(s) interests in such Global Note are credited as being held in the CMU Service in accordance with the CMU Rules as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service save in the case of manifest error), shall be the only person(s) entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note or such person(s) for whose account(s) interests in such Global Note are credited as being held in the CMU Service (as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream or the CMU Service, 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 Lodging Agent, 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 Service, 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 Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

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 Service, (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:

Early Redemption Amount = RP x $(1 + AY)^y$

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 (i) Euroclear and/or Clearstream , be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream for communication by them to the holders of the Notes or (ii) the CMU Service, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note and, in addition, in the case of both (i) and (ii) above, 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 seventh day after the day on which the said notice was given to Euroclear and/or Clearstream and/or the persons shown in the relevant CMU Instrument Position Report.

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 Service, 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 Service, 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.

RISKS RELATING TO THE ISSUER

Loan purchase activities in Hong Kong

A main line of the Issuer's business is to buy loan assets from the Approved Sellers (as defined below) in Hong Kong. The willingness of the Approved Sellers to sell their loan assets to the Issuer is dependent 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 has significant exposure to the Hong Kong property market due to its portfolio of property 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, the rate of economic growth or contraction in Hong Kong, political and economic developments in Mainland China, and the relationship of Mainland China 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 careful initial selection of the loan assets to be purchased and the maintenance of a low ratio of borrower's default following the relevant purchase. The Issuer cannot offer any assurance that it will continue to be able to purchase loan assets of sufficient 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 COVID-19 is causing a significant negative impact on the global and local economy. The unemployment rate in Hong Kong soared and may remain at a high level for a prolonged period. 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 portfolio, which could have an adverse impact on the Issuer's results of operations.

The Approved Seller / Approved Servicer (as defined below) 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 borrowers' default risk under the Microfinance Scheme (**MFS**), under which loans are offered to borrowers through participating AIs (as defined below) with funding participation provided by one of the Issuer's wholly-owned subsidiaries, HKMC Mortgage Management Limited (**HMML**) (see *"Description of the Issuer — Business Overview — Microfinance Scheme"*). The Issuer can offer no assurance as to the effectiveness of the vetting and underwriting standards with respect to the loans nor the economic conditions which may have an adverse impact on the repayment capabilities of borrowers under the MFS.

Exposure to the risks under the Infrastructure Financing and Securitisation business

The Issuer's Infrastructure Financing and Securitisation (**IFS**) business allows the Issuer to purchase and co-finance infrastructure loans and to securitise the loans at appropriate market conditions after accumulating a diversified asset portfolio. Such business may bring additional risks inherent in cross border infrastructure projects to the Issuer, 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. Also, the proposed debt securities may be considered a new asset class in the market and hence the successful securitisation and offloading of these loans will be subject to further market development.

Although the Issuer has set up the internal risk appetite and established and adopted a prudent risk management framework for this business, covering prudent underwriting criteria, in-depth due diligence reviews conducted by in-house expertise and independent consultants, strong project structures and robust financing documentation, and an ongoing monitoring and review mechanism and other economically available mitigation measures typical for transactions of this nature, there is no assurance that the new business will not adversely affect the Issuer's business, financial condition and results of operations.

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

The Issuer borrows money from various sources at various rates and maturities. The Issuer buys loan assets at various rates and for various maturities. Loan repayments may not be made when scheduled. This exposes the Issuer to cashflow and net interest income risk in that the Issuer's income may not match its outgoings (particularly because of interest rate movements and timing of payments). Although the Issuer has sound credit ratings and diversified funding sources, liquidity risk may nevertheless arise under certain market conditions because of uncertainty about whether funds are available to repay its borrowings when due and to meet scheduled loan asset purchases. The Issuer seeks to minimise its exposure to these risks through a diversified funding base and the prudent use of various cash and derivative instruments. However, the Issuer cannot offer any assurance as to the effectiveness of its risk management techniques or the availability of such instruments in the future.

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, but there can be no assurance that such linkage will be maintained in the future. The Hong Kong Government has from time to time expressed a commitment to maintain exchange rate stability under the Linked Exchange Rate System. Although the Issuer adopts a prudent currency risk management policy to manage its currency risk (see "*Description of the Issuer — Risk Management — (b) Market Risk — (iv) Currency risk*"), the Issuer can offer no assurance that its business, financial condition and the results of its 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.

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 a 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.

Implementation of Hong Kong Financial Reporting Standard 9 "Financial Instruments" (HKFRS 9)

The Issuer adopted the new financial reporting standard, HKFRS 9, on 1 January 2018. Following the adoption of HKFRS 9, the Issuer is required to re-classify and re-measure (including impairment measurement) certain of its financial instruments from 1 January 2018 without requiring any restatement of the corresponding figures of the prior period. In accordance with HKFRS 9, the Issuer is permitted to adjust its shareholders' equity from 1 January 2018 without requiring any restatement of the corresponding figures of the prior period where the difference between the new carrying amount and original carrying amount would be recognised in retained profits and other reserves from 1 January 2018. Hence, the Issuer's financial information as at and for the year ended 31 December 2018 may not be directly comparable against the Issuer's financial information prior to 1 January 2018. Investors must therefore exercise caution when making comparisons of any financial figures after 1 January 2018 against the Issuer's historical financial figures prior to 1 January 2018 and when evaluating the Issuer's financial condition and results of operations. This new standard and the impact of its initial application are described in Note 3 to the Issuer's audited consolidated financial statements as at and for the year ended 31 December 2018.

Following the adoption of HKFRS 9, some of the Issuer's investments classified as "fair value through profit or loss" are required to be measured at fair value, with the revaluation gains and losses recorded in profit or loss. Accordingly, the Issuer's financial performance may be subject to volatility depending on the market conditions.

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.

Exposure of the Issuer under its guarantees of the Mortgage-Backed Securitisation Programme

Under the Issuer's U.S.$3 billion Mortgage-Backed Securitisation Programme (**Bauhinia MBS Programme**), Bauhinia MBS Limited, a special purpose vehicle incorporated in the Cayman Islands, issues mortgage-backed securities (**MBS**) (which may or may not be guaranteed by the Issuer). As the principal amount of notes guaranteed by the Issuer under the Bauhinia MBS Programme increases, the Issuer's guarantee liability will increase correspondingly and may become substantial. These exposures are recognised as financial liabilities of the Issuer.

Guarantee relating to subsidiary

General insurance business of the Group (as defined below) is carried on by a wholly-owned subsidiary of the Issuer, 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 insurer's obligations under the programmes and schemes operated by the HKMCI (see *"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 Group is 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 the risks of legal, regulatory, litigation and compliance proceedings. Management of these risks requires, among other things, policies and procedures to properly record and verify large numbers of transactions and events. 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, an increase in expenses or capital in order to achieve compliance, disputes 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 could impact 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 violations, which may result in penalties, damages, costs, and possible deterioration of 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 operating results.

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, anti-terrorism laws, anti-bribery laws and other regulations in Hong Kong. These laws and regulations require the Group, among other things, to formulate "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. Additionally, in recent years, regulators globally have increased their scrutiny of 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 compliance.

While the Group has adopted policies and procedures aimed at detecting and preventing money laundering activities or by terrorists and terrorist-related organisations and individuals or by bribery-related individuals 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 the Group fails to fully comply with applicable laws and regulations, the relevant government agencies to whom the Group reports 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 operation.

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 (see "*Description of the Issuer — Business Overview — Mortgage Insurance Programme*"). The HKMCI's exposure depends on the quality of the mortgage loans under the insurance cover provided by the HKMCI and the careful initial screening of mortgage loans eligible under the MIP. To reduce its exposure, the HKMCI obtains reinsurance from the Approved Reinsurers (as defined below) for the whole or a part of the insurance cover amount so that the risk of borrower's default is mitigated by risk sharing with the Approved Reinsurers. Neither the Issuer nor the HKMCI can offer 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 risk of default by borrowers under the SME Financing Guarantee Scheme

Under the SME Financing Guarantee Scheme (**SFGS**) operated by the HKMCI, in return for a guarantee fee, the HKMCI provides financial guarantees for loan facilities provided to eligible small and medium-sized enterprises (**SMEs**) and non-listed enterprises (and for a 1-year period starting from 29 May 2020, listed companies in Hong Kong) by the participating "authorized institutions" (**AIs**) (as defined in Section 2 of the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) (**Banking Ordinance**)) (see "*Description of the Issuer — Business Overview — SME Financing Guarantee Scheme*"). The HKMCI is exposed to the borrower's default risk under the SFGS. The risk exposure depends on the credit quality of the borrowers and the underwriting by the lenders under the SFGS. The HKMCI limits its risk exposure by sharing each borrower's default loss with the lenders and setting prudent eligibility criteria to limit its exposure. Neither the Issuer nor the HKMCI can offer assurance as to the effectiveness of the lenders' underwriting standards with respect to the loans nor the economic conditions which may have an impact on the repayment capability of the borrowers under the SFGS.

The HKMCI administers the 80 per cent. guarantee product (**80% SFGS**) and 90 per cent. guarantee product (**90% SFGS**) under the SFGS, which are backed by the Hong Kong Government's total guarantee commitment up to HK$100 billion and HK$33 billion respectively, on prudent commercial principles and that the guarantee fees are set aside to pay default claims from participating AIs and related out-of-pocket expenses. Any remaining balance of the guarantee fees and debt recoveries are returned to, or any shortfall is reimbursed by, the Hong Kong Government. Neither the Issuer nor the HKMCI can offer assurance that the Hong Kong Government will not default on its reimbursement obligations. The HKMCI is responsible for the operation of such product and the relevant operating costs.

The Government announced in February 2020 the introduction of a special 100% loan guarantee ("**Special 100% Loan Guarantee**") under the SFGS, which is administered by the HKMCl (see "*Description of Issuer — Business Overview — SME Financing Guarantee Scheme*"). The Government provides total guarantee commitments of up to HK$50 billion and all loans approved and drawn down by the participating lenders will be sold to the Issuer. Neither the Issuer nor the HKMCI can offer assurance that the Hong Kong Government will not default on its reimbursement obligations. The HKMCI is responsible for the operation of such product and the relevant operating costs.

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. (see "*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, 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 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 (see "*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 upon the occurrence of a maturity event, the money paid under the life insurance policy assigned as the collateral of a loan is insufficient to cover the outstanding loan balance and the associated expenses. 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, however, neither the Issuer nor the HKMCI can offer assurance as to the effectiveness and accuracy of such assumptions, or that the insurance companies of the 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**), a wholly-owned subsidiary of the Issuer, operates the HKMC Annuity Plan (see "*Description of the Issuer — Business Overview — HKMC Annuity Plan*") which provides immediate lifetime guaranteed monthly payout to the elderly annuitants with a lump-sum premium. As such, the HKMCA is exposed to investment risk and various insurance risks. The major insurance risk is the longevity risk which arises from the possibility that actual 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 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, lapse and expense. It is also envisaged that the Insurance Authority may implement a new risk-based capital framework, which is currently under consideration and may affect the future solvency requirement of the HKMCA. These could adversely affect the business, financial condition and results of operations of the Issuer and the HKMCA.

Further, a significant portion of the asset of the HKMCA is invested in illiquid asset. Due to asset volatility and uncertain annuity liabilities, the HKMCA is exposed to asset-liability mismatch risk and liquidity risk. The HKMCA minimises the risk through actively 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 the 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 products to such customer is subject to additional regulatory requirements. Thus, the HKMCA is exposed to the risk of financial loss and/or reputation damage due to mis-selling and customer complaints. To minimise such risk, the HKMCA has carried out a thorough analysis to ensure the product meets the customer's needs and provided sufficient training to the distribution channel. However, neither the Issuer nor the HKMCA can offer any assurance as to no occurrence of mis-selling.

RISKS RELATING TO HONG KONG, THE PRC AND OTHER ASIA-PACIFIC COUNTRIES

Issuer's business is affected by the political and economic situation in Hong Kong, the PRC and other Asia-Pacific 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 exercise of PRC sovereignty over Hong Kong, or that should such change occur, the Issuer's business, financial conditions and the results of its operations will 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. Due to the close business relations between Hong Kong and the PRC and other Asia Pacific countries, the Hong Kong economy may be affected, directly or indirectly, by the performance of the economies of these countries. For example, the 1997 Asian financial crisis and the subsequent economic downturn in the region had affected the Issuer's financial results.

Hong Kong is a small and open economy, highly dependent on international trade and finance. Hence, the economy is also affected to a significant extent by the economies of the U.S., the European Union and elsewhere. Hong Kong's economy showed weakness in the first half of 2019 when the global economy experienced a synchronised slowdown amidst considerable uncertainties and downward pressures from the US-China trade conflict and the risk of a hard Brexit. Aggravated by domestic social incidents in the second half of the year, Hong Kong's real gross domestic product (**GDP**) recorded a full year contraction of 1.2% in 2019, posting the first annual decline since 2009.

Moreover, civil unrest and an uncertain political environment may impact the Hong Kong economy and result in an economic slowdown. Protests, demonstrations or rioting causing disruption to businesses, commercial activities and transportation systems, such as the recent anti-extradition bill protests since June 2019, may adversely impact the local economy. 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, results of operations and prospects.

Future political or economic instability or a sustained slowdown in domestic economic activities, especially in relation to property, 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 by foreign governments relating to Hong Kong

In May 2020, the National People's Congress of the PRC approved a resolution to establish a national security law for Hong Kong. It was announced that the proposed legislation will target acts of secession, subversion, terrorist activities and activities interfering with Hong Kong's internal affairs by foreign or external forces.

The Hong Kong Government welcomed the decision for the legislation and believed that the legislation can safeguard the prosperity and stability of Hong Kong and provide a favourable business and investment environment. The Hong Kong Government takes the view that the "One Country, Two Systems" principle and the legitimate rights and freedoms enjoyed by Hong Kong residents will remain intact, and the legitimate interests of foreign investors will continue to be protected by law.

Following the proposed legislation, the U.S. State Department announced its intentions to withdraw privileges granted to Hong Kong under the Hong Kong Policy Act of 1992, and the U.S. government indicated that it may impose sanctions or other measures relating to Hong Kong, e.g. higher tariffs, tougher investment rules, asset freezes and more onerous visa rules. There have been some comments that Hong Kong's standing as an international financial centre could be at risk. Among other things, U.S. tariffs on China and restrictions on technology transfer and investment could become applicable to Hong Kong or Hong Kong entities or persons. Certain other foreign governments and organisations also expressed concern regarding the enactment of such national security law and there is a risk that certain actions may be taken by all or some of them which may be detrimental to Hong Kong. Until full details of the actions proposed by the U.S. and such other foreign governments and organisations are revealed, the Issuer will not be able to assess the impact of such actions on Hong Kong and the Issuer.

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. Hong Kong's economy contracted at an even sharper pace of 8.9% (year-on-year) in the first quarter. While lock-down and stay-home policies previously imposed in many countries and regions are gradually lifted or softened while the pandemic slows down, economic activity and employment have not yet fully recovered. There are also newly reported cases of COVID-19 in Hong Kong from time to time whether attributable to local infections or visitors. Global economic outlook, including that of Hong Kong, will hinge on when the pandemic can be contained, when some of the quarantine measures or restrictions put in place can be relaxed or removed 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 the results of its operations and its ability to access the capital markets.

From time to time, there have been media reports regarding occurrences of epidemics such as the 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. Although the Issuer has a business continuity plan in place (see "*Description of the Issuer — Risk Management — (f) Operational Risk*"), any such further outbreak may have a material adverse impact on the operations of the Issuer.

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 London interbank offered rate (**LIBOR**) and 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 **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 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).

The Benchmarks Regulation 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 Benchmarks Regulation. 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.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, the UK Financial Conduct Authority (**FCA**) confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcements**). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average (**SONIA**) over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate (**ESTER**) as the new risk free rate. ESTER is expected to be published by the ECB by October 2019. In addition, on 21 January 2019, 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, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

It is not possible to predict with certainty whether, and to what extent, LIBOR, EURIBOR, HIBOR or any other benchmarks will continue to be supported going forwards. This may cause such benchmarks to perform differently than they have done in the past, and may have other consequences which cannot be predicted. 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.

Investors should be aware that, if LIBOR, EURIBOR, HIBOR or any other benchmarks were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which reference those benchmarks will be determined for the relevant period by the fallback provisions applicable to such Notes. Depending on the manner in which the benchmark rate is to be determined under the Terms and Conditions, this may in certain circumstances (i) be reliant upon the provision by reference banks of offered quotations for the benchmark rate which, depending on market circumstances, may not be available at the relevant time or (ii) 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. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Notes which reference such benchmarks.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation or any of the international or national reforms in making any investment decision with respect to any Notes referencing a benchmark.

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.

Although it is expected that the offshore RMB market will continue to grow in depth and size, its growth 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 depositary for Euroclear and Clearstream or a sub-custodian for the CMU Service 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 Service 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 2019:

	HK$'000
Short-Term Liabilities	
Debt Issuance Programme Notes due within 1 year	668,592
Medium Term Note Programme Notes due within 1 year	20,714,574
Long-Term Liabilities	
Debt Issuance Programme Notes due after 1 year	1,211,862
Medium Term Note Programme Notes due after 1 year	17,115,935
Total Loan Capital	39,710,963
Shareholders' Equity	
Share capital 2,000,000,000 shares issued and fully paid	7,000,000
Reserves	8,236,591
Total Shareholders' Equity	15,236,591
Total Capitalisation[1]	54,947,554

Note:

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

As at 31 May 2020, total capitalisation of the Issuer has increased compared to that as at 31 December 2019 mainly due to an increase in debt issuance in order to support the purchase of the loans under the Special 100% Loan Guarantee.

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 2019.

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 of the Hong Kong Government (**Financial Secretary**) primarily for such purposes as the Financial Secretary thinks fit affecting, either directly or indirectly, the exchange value of the currency of Hong Kong and for other purposes incidental thereto.

For the purpose of implementing the HKMC Annuity Plan, in 2017, the Issuer underwent 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 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.

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 HKMA in February to study secondary mortgage market in Hong Kong
1996	The HKMA 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 Standard & Poor's 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 HKMA was increased from HK$10 billion to HK$30 billion
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 under the SME Financing Guarantee Scheme were launched 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 implemented in January
	The Policy Reverse Mortgage Programme was launched in May
2020	The Fixed-rate Mortgage Pilot Scheme was launched 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.

Pursuant to a facility letter entered into by the Issuer and the HKMCI, the Issuer provides a facility up to HK$2 billion to assist the HKMCI in funding its general insurance business operations. Further, the Issuer has 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. Like the Issuer, the HKMCI is specified as a "public sector entity" under the Banking (Capital) Rules.

HKMCA

The HKMCA, a wholly-owned subsidiary of the Issuer, was incorporated in June 2017. It has a share capital of HK$5 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, including the HKMC Annuity Plan.

Pursuant to a facility letter entered into by the Issuer and the HKMCA, the Issuer provides a facility up to HK$10 billion to assist the HKMCA in funding its operations in relation to the HKMC Annuity Plan. Further, pursuant to a tripartite capital commitment letter entered into by the Monetary Authority, the Issuer and the HKMCA, additional funds up to HK$20 billion from the Exchange Fund will be injected to the Issuer as equity for the purpose of financing the Issuer's additional capital injection to the HKMCA and the Issuer will inject such additional funds to the HKMCA as equity if the solvency ratio of the HKMCA falls below a certain percentage. Like the Issuer, the HKMCA is specified as a "public sector entity" under the Banking (Capital) Rules.

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 Exchange Fund provides the Issuer with a HK$30 billion revolving credit facility (**RCF**) as a backup liquidity tool, of which the facility amount was increased in December 2008 from the original amount of HK$10 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 shareholders for the injection of additional capital of up to HK$1 billion from the Exchange Fund (if and when needed) pursuant to an arrangement agreed by the shareholders.

Missions

The missions of the Issuer and its subsidiaries (**Group**) are to promote:

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

Principal Business Activities of the Group

The Issuer's major business activities 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.

The HKMCI's major business activities 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); and

- to operate a platform for the Hong Kong Government to provide financial guarantee cover to participating AIs in respect of loans advanced to eligible SMEs and non-listed enterprises (and for a 1-year period starting from 29 May 2020, listed companies in Hong Kong).

The HKMCA's major business activity 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 has highlighted Hong Kong's financial role and the direction of economic development in the National 13th Five-Year Plan (2016–2020) to consolidate and enhance Hong Kong's status as an international financial centre, and to strengthen its status as an offshore RMB business hub and an international asset management centre. Hong Kong also received support from the PRC government to play an important role in promoting cooperation, and development of the Guangdong-Hong Kong-Macao Greater Bay Area and major transprovincial cooperation platforms.

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 China enterprises. Hong Kong also operates one of the most active physical gold markets in the world. Spot gold can be traded through two closely related yet independent markets in the city — the Chinese Gold and Silver Exchange Society and the loco-London gold market. Prices closely follow those in the other major gold markets in London, Zurich and New York.

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 Service 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 Service 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 China enterprises to access international capital through its banking, equity and debt markets. Located in the south coast of the PRC, 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 China 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 the PRC 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 Europe and Africa, Hong Kong's strategic position is to take an active role 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 Guangdong-Hong Kong-Macao Greater Bay Area" announced by the PRC government in February 2019, Hong Kong was given an important role in the development of the Greater Bay Area: to facilitate and support the economic development of the region and the industries in which Hong Kong's strengths lie in the Greater Bay Area, capitalising on Hong Kong's strengths to serve the country's needs.

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 has further driven the local economy into deep recession. The Hong Kong Government has rolled out a series of stimulus packages to support the economy and the labour market, including measures under the Anti-epidemic Fund and the massive package of countercyclical measures in the 2020-21 Budget. However, Hong Kong's near-ter m economic outlook remains very challenging and uncertain, largely hinging upon the evolving global pandemic and economic conditions.

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 (**HD**) 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 2.8 million permanent housing units in Hong Kong as at 31 March 2019, 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) to build more public rental housing units and to ensure the rational use of existing resources; (2) to provide more subsidised sale flats, expand the forms of subsidised home ownership and facilitate the market circulation of existing stock; and (3) to stabilise the residential property market through steady land supply and appropriate demand-side management measures, and to 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 2020-21 to 2029-30, 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.

The following table shows the number of permanent residential flats in Hong Kong as at the dates indicated.

	As at 31 March				
	2015	2016	2017	2018	2019
			Thousands		
Public permanent housing[1]	1,178	1,188	1,208	1,221	1,246
Rental housing	*783*	*789*	*808*	*815*	*832*
Subsidised sale flats	*396*	*399*	*400*	*405*	*414*
Private permanent housing[2]	1,489	1,519	1,537	1,554	1,575
Overall	2,668	2,707	2,745	2,775	2,821

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 322 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

The following table shows the number of permanent residential flats built for the periods indicated.

	For the year ended 31 March				
	2014	2015	2016	2017	2018
			Thousands		
Public permanent..............	6	11	22	14	25
Rental housing	*6*	*10*	*22*	*11*	*20*
Subsidised sale[1]..............	*0*	*1*	^	*3*	*5*
Private permanent housing (excluding village houses) ...	16	11	15	18	21
Overall[2]	22	22	37	32	46

Notes:

(1) Figures do not include the 322 subsidised sale flats provided by the URA on a one-off basis in 2015/16.

(2) Figures may not add up to the total due to rounding.

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 2019, private residential property supply amounted to over 1.5 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 2015 to 2019.

	Number of Private Housing Units Completed (Classified by Saleable Area in Square Metres) for the year ended 31 December					
Year	**0–39.9**	**40–69.9**	**70–99.9**	**100–159.9**	**160 & above**	**Total**
2015	2,135	5,047	2,190	1,471	453	11,296
2016	3,937	7,162	1,413	1,325	758	14,595
2017	6,891	7,665	1,794	1,058	383	17,791
2018	7,212	8,237	3,414	1,541	564	20,968
2019	6,622	4,174	1,506	1,025	316	13,643

Note: Village houses are excluded from the above table.

Source: Hong Kong Property Review 2020 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 49.8 per cent. in 2019.

The following table sets out the respective owner-occupier rates for the calendar years from 2015 to 2019.

Year	**2015**	**2016**	**2017**	**2018**	**2019**
Owner-Occupier Rate	50.3%	50.4%	49.2%	49.2%	49.8

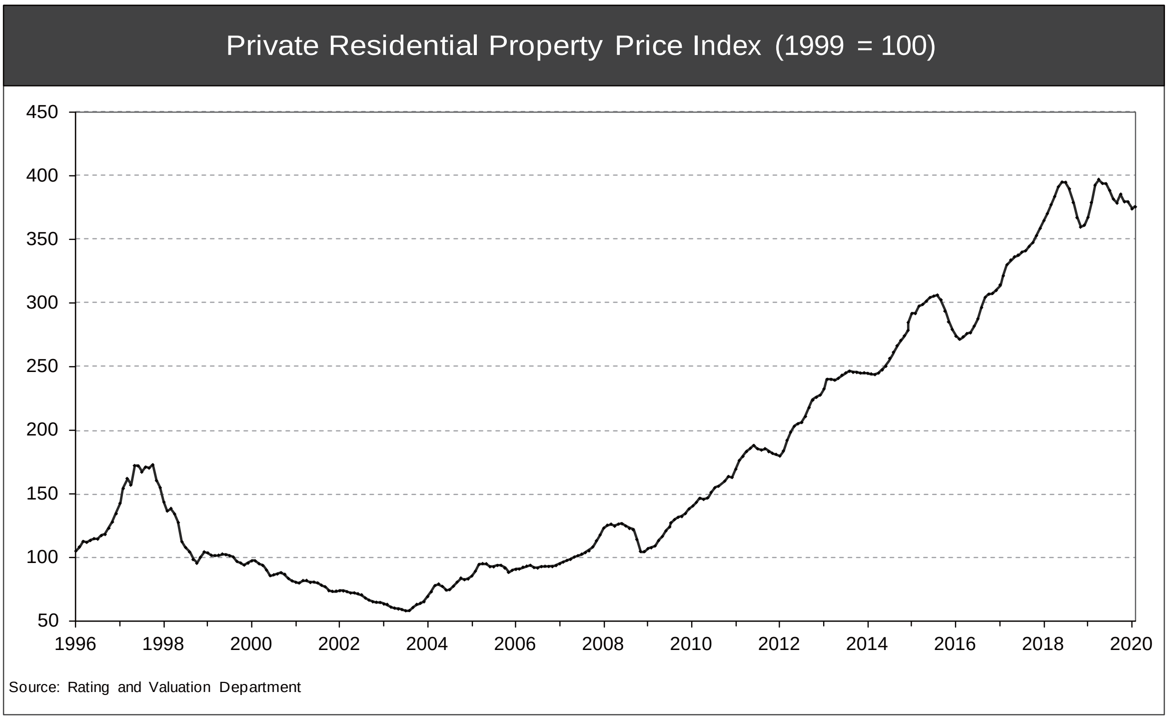
Note: Owner-occupier rate refers to the proportion of domestic households owning the quarters that they occupy.

Source: C&SD

Residential Property Prices

Following the cooling down of the residential property market in the second half of 2019, the overall transactions in the residential property market has picked up in early 2020 because of the low interest rates. The overall numbers of residential property transactions and consideration have increased by 29% and 8% respectively between December 2019 and April 2020.

The following chart shows the private residential property price index from 1996 to March 2020 and is taken from reports published by the RVD.



Hong Kong Mortgage Market

The following charts relating to the Hong Kong mortgage market are 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 pilot scheme of fixed-rate mortgages for 10, 15 and 20 years in May 2020 (see "*Description of the Issuer — Business Overview — Fixed-rate Mortgage Pilot Scheme*").

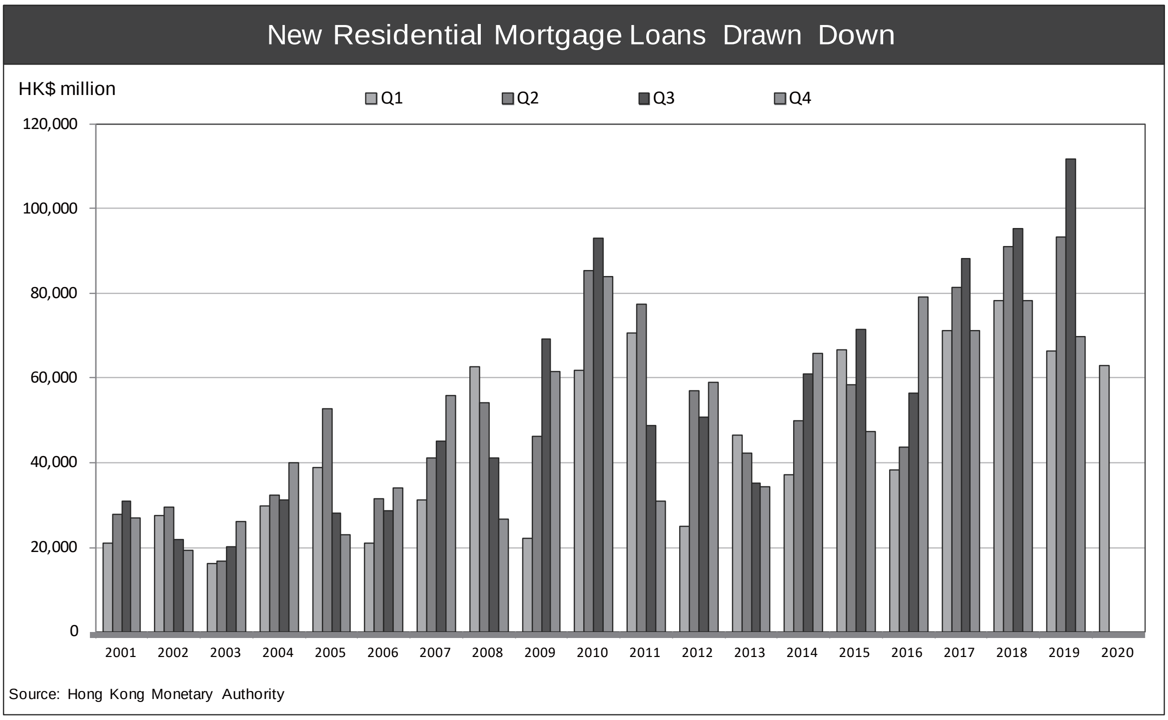
The mortgage rate in Hong Kong is still relatively low under the low interest rate environment and keen competition in the mortgage market. With the successive interest rate cuts totalling 150 basis points by the US Federal Reserve in March 2020 , the proportion of new mortgage loans priced with reference to HIBOR has been on an upward trend in the first quarter of 2020, from 80.2 per cent. in January 2020 to 88.7 per cent. in March 2020. For BLR-based mortgages, the proportion stood at 8.2 per cent. as at 31 March 2020.

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 March 2020 amounted to around HK$1,539.19 billion, representing about 20.8 per cent. of the total loans drawn (from which loans for trade financing are excluded), which comprised HK$80.91 billion in loans to finance the purchase of public subsidised sale flats and HK$1,458.28 billion to finance the purchase of private residential properties. The gross new mortgage loans originated in 2019 totalled HK$341 billion.

The following chart shows the new residential mortgage loans (by quarter) for years 2001 to 2019 and the first quarter of 2020.



Business Overview

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 2020. 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.

In general, the Approved Sellers are required to maintain proper internal audit procedures, credit and risk functions, written loan origination guidelines and operational procedures for monitoring the quality of the asset portfolio and keep in custody the loan origination and all other related documents.

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 — (a) 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 2019, the Issuer purchased approximately HK$2 million of local loan assets. As at 31 December 2019, the size of the Issuer's loan portfolio, net of impairment allowances, amounted to HK$6.9 billion. The delinquency ratio for the overall loan portfolio (overdue for more than 90 days) was 0.03 per cent. as at 31 December 2019. The Issuer has not purchased any sub-prime mortgages.

Fixed-rate Mortgage Pilot Scheme

Announced in the Financial Secretary's 2020-21 Budget, the Issuer introduced a pilot scheme of fixed-rate mortgages for 10, 15 and 20 years in May 2020 which will be open for application through participating AIs until 31 October 2020. The scheme aims to provide an alternative financing option to homebuyers for mitigating their risks arising from interest rate volatility. The aggregate loan amount of the scheme is HK$1 billion and the maximum loan amount of each private residential mortgage is HK$10 million. The relevant mortgage loans would be purchased by the Issuer after their origination and in some cases, HMML would be the servicer of such loans.

Microfinance Scheme

In the 2011-12 Budget Speech, the Financial Secretary commissioned the Issuer to carry out a feasibility study on the introduction of a sustainable microfinance scheme in Hong Kong and in the 2012-13 Budget Speech, the Financial Secretary commissioned the Issuer to introduce the MFS for a pilot period of three years with a total lending amount capped at HK$100 million. The Issuer launched the MFS in collaboration with banks and non-governmental organisations (**NGOs**) in June 2012. In June 2015, the Issuer extended the MFS for a further term of three years to June 2018. The cap on the total lending amount was raised from HK$100 million to HK$200 million. In June 2018, the Issuer further extended the term of the MFS to December 2019.

Under the MFS, loans were offered by participating banks (funded by HMML and/or participating banks) to people 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 business.

By the end of 2019, a total of 221 loans with a total loan amount of HK$55.5 million had been approved under the MFS. The acceptance of loan applications under the MFS has ceased since end-December 2019.

Infrastructure Financing and Securitisation

In anticipation of the demand for infrastructure financing in the market, the Issuer saw an opportunity to further the achievement of its banking stability and local debt market development mandates, and at the same time help consolidate Hong Kong's position as an infrastructure financing hub. In 2017, the Issuer engaged the World Bank Group, through a mandate with the International Finance Corporation (**IFC**), for its expert advice on enlarging the Issuer's business scope to include infrastructure finance and related securitisation. The IFC presented choices of financial instruments and considerations on capacity assessment for the Issuer to embark on expanding its strategy to cover infrastructure finance, which would further the achievement of the Issuer's mandates.

In 2018, the Issuer set up an IFS division manned by experienced industry professionals and mobilised internal resources for the IFS business. Since 2019, the Issuer has participated in a steady manner in the infrastructure financing market on commercially viable and financially sustainable terms, by making use of its comparative advantages in terms of strong credit standing and medium-to-long term funding capability while observing prudent commercial principles and risk management policies.

The Issuer currently purchases and accumulates infrastructure loans from commercial banks, as well as co-finances infrastructure projects with multilateral development banks and commercial banks. It will explore securitisation opportunities after building up its infrastructure loan portfolio and necessary experience. The IFS business will enable the Issuer to further its mandates of promoting stability of the banking sector and development of the local debt market, while at the same time filling the infrastructure financing market gaps and fostering market development.

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 in March 1999. Under the MIP, the Issuer (or the HKMCI since 1 May 2018) as the insurer (**MIP Insurer**) 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. At the inception of the MIP, the amount of mortgage insurance coverage provided by the MIP Insurer under the MIP was 15 per cent. of the value of the property on which the loan was secured, and the coverage was gradually increased to 25 per cent. by 2004 to enable participating AIs to advance mortgage loans of up to 95 per cent. of the value of the property (i.e. at an LTV of 95 per cent., being 25 per cent. above the required 70 per cent. set by the HKMA's guidelines at that time) and to earn more interest income from a larger loan amount without taking on additional credit risk. Should the mortgage loans default, the insurance would cover loss of principal on the mortgage loans above 70 per cent. up to a maximum of 95 per cent. of the value of the property at the origination of the loan. 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 mortgage reinsurers (**Approved Reinsurers**) by way of a quota sharing reinsurance arrangement.

Amid the height of the global financial crisis in December 2008, to meet the demand of homebuyers to gain access to high LTV mortgage loans, the MIP Insurer proactively filled the gap in the mortgage lending market by reducing the insurance coverage threshold downwards from 70 per cent. to 60 per cent. of the value of the property subject to a maximum LTV of 90 per cent. In response to a sharp rise in the prices of the high-end residential property market and the various prudential measures for residential mortgage loans announced by the HKMA, the MIP Insurer took steps from October 2009 to May 2017 to tighten certain MIP eligibility criteria. The MIP Insurer suspended the MIP coverage in respect of non owner-occupied properties in October 2009 and reduced the maximum LTV for insurance coverage from 95 per cent. to 90 per cent. of the value of the property in August 2010. In November 2010, the MIP Insurer introduced a cap of HK$6.8 million on the value of the property that could be covered under the MIP. Such cap was subsequently reduced to HK$6 million in June 2011.

In September 2012, the maximum DTI was reduced from 50 per cent. to 40 per cent. for MIP applicants who have already borrowed or guaranteed outstanding mortgages loans for two or more properties. In February 2013, the maximum LTV was reduced to 80 per cent. for properties with a value at or above HK$4.5 million. In February 2015, the MIP Insurer generally reduced the maximum LTV for the MIP coverage for eligible properties from 90 per cent. to 80 per cent. of the property value and lowered the MIP coverage threshold downwards from 70 per cent. to 60 per cent. of the property value. In May 2017, the HKMA further lowered the LTV cap by 10 per cent. for property mortgage loans extended to applicants who have borrowed or guaranteed other outstanding mortgages. The MIP Insurer lowered the MIP coverage threshold to 50 per cent. for the relevant eligible mortgage loans.

In order to provide assistance to homebuyers with immediate housing needs, the HKMCI announced further amendments to the MIP (for completed residential properties) in October 2019. The cap on the value of property eligible under the MIP was increased from HK$6 million to HK$10 million for 80% LTV, and from HK$4 million to HK$8 million for 90% LTV (for first-time homebuyers only).

The volume of loans drawn down under the MIP increased to HK$33.3 billion in 2019 from HK$32.5 billion in 2018. In the first four months of 2020, the volume of loans drawn down was HK$22.6 billion.

SME Financing Guarantee Scheme

In May 2010, a number of SMEs and other commentators proposed that a sustainable, market-oriented platform be developed in Hong Kong for obtaining guarantees for SME loans upon the phasing out of the Special Loan Guarantee Scheme offered by the Hong Kong Government (which was introduced during the global financial crisis in 2008 and was terminated in January 2011). SMEs and banks believed that the Issuer's financial strength and track record in operating financing guarantees and insurance businesses would make the Issuer a prime candidate for operating such platform.

In response, the Issuer launched the SFGS in January 2011. The SFGS effectively lowers banks' credit risks when lending to the SMEs, and hence helps maintain the stability of the banking sector in line with the mission of the Issuer. The SFGS offers guarantee products with different guarantee protection coverages (50 per cent., 60 per cent. and 70 per cent.) providing more flexible options for helping SMEs to acquire more stable financing from banks in order to meet their funding needs for working capital or acquisition of equipment and assets in support of business operation.

At the request of the Hong Kong Government, the Issuer promulgated in May 2012 the 80% SFGS backed by the Hong Kong Government's total guarantee commitment up to HK$100 billion. The 80% SFGS enables the Hong Kong Government to provide, via the HKMCI as the administrator of the product, 80 per cent. loan guarantee on eligible loan facilities as approved by participating AIs at a substantially lower guarantee fee rate, thereby helping SMEs to obtain loans for general working capital or acquiring equipment or assets to support their business operations. The 80% SFGS is currently set to end in June 2022.

The Financial Secretary announced in August 2019 the further extension of the application period of the three Enhancement Measures (including reducing the guarantee fee rates by 50%, increasing the maximum facility amount from HK$12 million to HK$15 million and lengthening the maximum guarantee period from five years to seven years) under the 80% SFGS to the end of June 2022.

The SFGS has been operated by the HKMCI since 1 May 2018 and in December 2019, the HKMCI introduced the 90% SFGS at the request of the Hong Kong Government. The 90 % SFGS is backed by the Hong Kong Government's total guarantee commitment up to HK$33 billion and aims to provide additional support to smaller-sized enterprises and businesses with relatively less operating experience to obtain financing. The application period of the 90% SFGS is set to be until June 2022.

The HKMCI administers the 80% SFGS and 90% SFGS on prudent commercial principles and the guarantee fees are set aside to pay default claims and related out-of-pocket expenses. Any remaining balance of the guarantee fees and debt recoveries is returned to, or any shortfall is reimbursed by, the Hong Kong Government. The HKMCI is responsible for the operation of the product and the relevant operating costs.

By the end of 2019, a total of 31 AIs have joined the SFGS as participating lenders. More than 17,200 applications for loans amounting to HK$72.3 billion had been approved under the SFGS, benefiting more than 9,600 local SMEs and more than 242,300 related employees.

The Hong Kong Government announced in February 2020 the introduction of the Special 100% Loan Guarantee under the SFGS administered by the HKMCI. The new measure aims to al1eviate the burden of SMEs that have been hard hit by the COVID-19 pandemic and the economic downturn to pay employee wages and rents, thereby helping to avoid and minimise business closures and staff layoffs. The Hong Kong Government provides total guarantee commitments of up to HK$50 billion. The Special 100% Loan Guarantee is applicable to all sectors. Eligible enterprises need to have been operating for at least three months as at the end of December 2019, and have suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any quarter in 2019. An interest rate of the Prime Rate minus 2.5% per annum (i.e. current interest rate of 2.75%) is charged. All guarantee fees are waived. The maximum amount of the loan that can be extended to each enterprise is the total amount of employee wages and rents for six months, or HK$4 million, whichever is lower. Enterprises may also apply for an optional principal moratorium for the first 12 months, so as to alleviate instant burdens on repayment. The loans under the Special 100% Loan Guarantee will be fully guaranteed by the Hong Kong Government and all guaranteed loans approved under the Special 100% Loan Guarantee and drawn down by the participating lenders will be sold to the Issuer.

Applications for the Special 100% Loan Guarantee started on 20 April 2020 and the application period will last for one year until 19 April 2021.

On 18 April 2020, with the rapid deterioration of the business environment following the spread of the COVlD-19 pandemic, the Finance Committee of the Legislative Council approved further enhancements on the 80% SFGS and the 90% SFGS to provide enterprises with much needed financial support to ease their cash flow pressure (**Further Enhancement Measures**). The Further Enhancement Measures took effect on 29 May 2020 and will last for 12 months until 31 May 2021, which include:

(a) increase the Maximum Facility Amount of the 80% SFGS and 90% SFGS from HK$15 million to HK$18 million, and from HK$6 million to HK$8 million respectively;

(b) provide, for a one-year period, interest subsidy for the loans at a level so as to bring the interest rate per annum on par with that of the Special 100% Guarantee Product (i.e. 2.75% at the moment, being the Prime Rate as specified by the Issuer from time to time minus 2.5% p.a.) subject to a subsidy cap of 3%; and

(c) extend, for a one-year period, the eligibility criteria to cover publicly listed companies in Hong Kong subject to personal guarantee by individual shareholder(s) directly or indirectly holding more than 50% of the equity interest of the enterprise.

As at end April 2020, the Group has approved more than 18,000 applications for loans amounting to HK$75.6 billion since the launch of the 80% SFGS in 2012. For the 90% SFGS, the Group has approved more than 900 applications for loans amounting to nearly HK$1.5 billion. Around 10,000 local SMEs and more than 250,000 related employees have benefited under the 80% and 90% SFGS.

For the Special 100% Loan Guarantee, the Group has approved more than 500 applications for loans amounting to HK$1.3 billion. More than 500 local SMEs and 12,400 related employees have benefited under the Special 100% Loan Guarantee.

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) for specific purposes. 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 2019, 3,740 RMP applications have been approved, with an average property value of about HK$5.4 million and an average monthly payout amount of HK$15,680.

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 60 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 for specific purposes.

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 moneys 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 the 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 2019, a total of 7,610 policies were issued under the HKMC Annuity Plan with a total premium receipt of around HK$4.4 billion and an average premium receipt of around HK$570,000 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.

Corporate Governance

The Issuer's corporate governance practices are set out in the "Corporate Governance Code" (**Code**) approved by the Board of Directors. Annual assessments are conducted internally by the Issuer to ensure its compliance with the Code, and a Corporate Governance Report is published in the Issuer's Annual Report. The 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 327 permanent employees as at 31 December 2019, among which 169 permanent employees were 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; hence, 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. Subject to the satisfaction of the relevant conditions, debt securities issued by the Issuer also qualify as "high quality liquid assets" or "liquefiable assets" for the purposes of the Banking (Liquidity) Rules. 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. The Issuer is designated as a "public body" under the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong). As such, its employees are subject to certain standards of behaviour specifically required for public servants.

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.

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	
	2019	**2018**
	HK$'000	**HK$'000**
Residential mortgage portfolio	4,910,217	6,179,353
Non-mortgage portfolio		
Infrastructure loans	1,817,052	–
Finance lease receivables and others	202,364	263,377
	6,929,633	6,442,730
Allowance for loan impairment	(1,588)	(666)
	6,928,045	6,442,064

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	
	2019	**2018**
Overall Portfolio[1]		
Delinquency ratio[2]	0.03%	0.02%
Combined delinquency and rescheduled loan ratio[3]	0.08%	0.06%
Hong Kong Residential Mortgage Portfolio^		
Delinquency ratio[2]	0.02%	0.02%
Combined delinquency and rescheduled loan ratio[3]	0.07%	0.06%
Loan-to-value ratio at origination (weighted average)[4]	76.9%	76.5%
Debt-to-income ratio at origination (weighted average)[4]	35.3%	35.4%
Hong Kong Non-Residential Mortgage Portfolio and Non-Mortgage Assets~		
Delinquency ratio[2]	0.19%	0.03%
Combined delinquency and rescheduled loan ratio[3]	0.29%	0.14%
MIP Portfolio		
Delinquency ratio[2]	0.003%	0.002%
Combined delinquency and rescheduled loan ratio[3]	0.003%	0.002%

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
~ Excluding IFS portfolio
* HKMC's participation amount for Microfinance loans

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	
	2019	**2018**
	HK$'000	**HK$'000**
Gross impaired loan portfolio	775	468
Allowance for loan impairment	(775)	(468)
	–	–
Allowance for loan impairment as a percentage of gross impaired loan portfolio	100%	100%
Gross impaired loan portfolio as a percentage of gross loan portfolio	0.011%	0.007%

The following table sets out details of the Issuer's allowance for loan impairment as at the dates indicated.

	As at 31 December	
	2019	**2018**
	HK$'000	**HK$'000**
Collective assessment		
As at 1 January	666	388
Loans purchased	703	–
Net measurement of impairment arising from transfer of stage	776	1,001
Movement due to changes in credit risk	63	42
Recoveries of loans not written off	(156)	(143)
	1,386	900
Write-offs	(464)	(622)
As at 31 December	1,588	666

	As at 31 December	
	2019	**2018**
Total allowance for loan impairment as a percentage of the gross loan portfolio	0.023%	0.010%

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 2019, 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 0.07 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 — (a) 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.

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 2019, the total outstanding amount of debt securities issued under the DIP was HK$1.9 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 subsequently increased to U.S.$6 billion in July 2011 and to U.S.$12 billion in June 2020.

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 2019, the Issuer issued 36 series of debt securities (with maturity of one-year and above) under the Programme with a total principal amount of HK$17.7 billion equivalent. As at 31 December 2019, the total outstanding amount of debt securities issued under the Programme was equivalent to HK$37.8 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 such increase again 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.

Mortgage-Backed Securitisation Programme

The Bauhinia MBS Programme is a U.S.$3 billion multi-currency mortgage-backed securitisation programme established in December 2001. The programme allows the Issuer to securitise mortgage portfolios by issuing MBS through a bankruptcy remote special purpose entity with various product structures, credit enhancement and distribution methods. MBS issued under the Bauhinia MBS Programme have the trading and settlement characteristics of a eurobond.

Since the inception of the Bauhinia MBS Programme, the Issuer has securitised mortgage loans through five public issues and one private placement issue. All MBS had been redeemed by March 2013.

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	
	2019	2018
	HK$'000	HK$'000
Debt securities carried at amortised cost		
Notes under the Medium Term Note Programme	10,308,191	14,540,716
Total debt securities carried at amortised cost	10,308,191	14,540,716
Debt securities designated as hedged items under fair value hedge		
DIP notes	1,733,270	1,808,922
Notes under the Medium Term Note Programme	27,522,318	20,799,258
Total debt securities designated as hedged items under fair value hedge	29,255,588	22,608,180

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Debt securities designated as at fair value through profit or loss upon initial recognition		
DIP notes	147,184	143,981
Total debt securities designated as at fair value through profit or loss upon initial recognition	147,184	143,981
Total debt securities issued	39,710,963	37,292,877

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	
	2019	2018
	HK$'000	HK$'000
Up to 1 month	388,298	(2,179,266)
Over 1 month to 3 months	(4,614,056)	(6,272,341)
Over 3 months to 1 year	(16,999,131)	(11,778,059)
Over 1 year to 5 years	(14,392,096)	(14,558,938)
Over 5 years	(6,603,357)	(4,517,697)
	(42,220,342)	(39,306,301)

Investment Portfolio

Investment Policy

The Issuer's investment policies and strategies are formulated by the ALCO. The investment portfolio comprises 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 control eligible product types, credit rating requirements, maximum tenor, allowable currency, investment exposure and portfolio concentration of investments. 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	
	2019	**2018**
	HK$'000	**HK$'000**
Investment securities at Fair Value Through Other Comprehensive Income (FVOCI)		
Debt securities at fair value		
Listed in Hong Kong	1,101,818	587,702
Listed outside Hong Kong	2,011,352	2,128,745
Unlisted	1,807,232	2,375,217
Total FVOCI securities	4,920,402	5,091,664
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	378,803	543,612
Total FVPL securities	378,803	543,612
Investment securities at amortised cost		
Debt securities		
Listed in Hong Kong	7,270,898	6,317,348
Listed outside Hong Kong	2,193,184	2,106,090
Unlisted	2,571,879	3,124,837
	12,035,961	11,548,275
Impairment allowance	(1,455)	(1,442)
Total amortised costs securities	12,034,506	11,546,833

The breakdown of the Issuer's investment securities by issuer type is as follows:

	As at 31 December	
	2019	2018
	HK$'000	HK$'000
Investment securities at FVOCI		
Banks and other financial institutions	3,941,969	4,266,072
Corporate entities	822,285	795,487
Public sector entities	–	30,105
Central governments	156,148	–
	4,920,402	5,091,664
Debt securities at amortised cost		
Banks and other financial institutions	4,064,177	5,075,984
Corporate entities	6,270,963	4,904,367
Public sector entities	358,587	540,768
Central governments	1,342,234	1,027,156
	12,035,961	11,548,275

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 2019, the balance of the placements with the Exchange Fund amounted to HK$12.9 billion (2018: HK$7.7 billion), comprising a total principal sum of HK$12.2 billion (2018: HK$7.6 billion) plus income earned and accrued but not yet withdrawn as at the reporting date.

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.

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). 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	
	2019	**2018**
CAR	30.2%	26.8%

Risk Management

The Issuer operates on prudent commercial principles. The principle of "prudence before profitability" guides the design of the overall risk management framework and disciplines its uses in day-to-day business execution. Over the years, the Issuer has continuously made refinements to its well-established, robust and time-tested 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 Chief Executive Officer, Senior Vice Presidents, General Counsel and senior staff from the Risk Management Department.

The Issuer manages primarily credit risk, market risk, longevity risk, property risk, operational risk, legal and compliance risk, and leveraging risk arising from its loan assets, guarantee portfolio, infrastructure loans, annuity business and investment portfolio.

In addition to the CRC, the Issuer manages different risks through various management committees such as the Infrastructure Financing and Securitisation Investment Committee (**IFSIC**), Credit Committee (**CC**), Transaction Approval Committee (**TAC**), Asset and Liability Committee (**ALCO**), Operational Risk Committee (**ORC**) and Longevity Risk Committee (**LRC**). Other than the IFSIC, which is chaired by an Executive Director, all of these management committees are chaired by Chief Executive Officer with members including the relevant Senior Vice Presidents, General Counsel, and senior staff from the relevant functional departments.

The insurance subsidiaries also have their own Risk Committee (**RC**) to monitor insurance risk and other relevant risks. Each RC is chaired by an Executive Director of these subsidiaries with members including the Chief Executive Officer, the relevant Senior Vice Presidents and senior staff from the relevant functional departments of these 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 or the HKMCI as appropriate 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

To effectively address default risk, the Issuer and the HKMCI adopt a four-pronged approach to safeguard and maintain the quality of its assets, MIP and SME guarantee portfolios:

- careful selection of counterparties, including Approved Sellers, Approved Servicers, Approved Reinsurers and Lenders
- prudent eligibility criteria for asset purchase, insurance and guarantee applications
- effective due diligence processes for mortgage purchase, default loss, insurance and guarantee claims
- enhanced protection for higher-risk transactions.

Losses may arise if there are shortfalls in the recovery amount received for defaulted loans that fall under the MPP. To mitigate this default risk, the Issuer establishes prudent loan purchasing criteria and conducts effective 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 credit losses that could arise from the borrower's default.

Losses may also arise from a default on loans under the MIP's insurance coverage. 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. As a result, the default risk for loans with MIP coverage has been greatly reduced. 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 SME guarantee portfolio. 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 provide management with an updated credit profile to monitor the operating environment closely for any emerging risks to the Issuer, 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 major 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 reviews 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 insurer authorised under the Insurance Ordinance. Furthermore, the insurers are subject to ongoing monitoring.

At the heart of the Issuer's credit risk management framework are the CC or TAC, or the RC as in the case of the insurance subsidiaries.

The CC or RC as appropriate is responsible for setting the credit policies and eligibility criteria. The CC or RC as appropriate is the approval authority for accepting applications to become Approved Sellers/Servicers under the MPP, Approved Reinsurers under the MIP, 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 expertise and independent consultants. All investments take into consideration 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 an independent 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 rules, guidelines and policies in relation to infrastructure finance, 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

Net interest income is the predominant source of earnings for the Issuer. It represents the excess of interest income (from the Issuer's loan portfolio, cash and debt investments) over interest expenses (from debt issuances and other borrowings). 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 on interest income and expenses, while maintaining stable earnings growth. The interest rate risk faced by the Issuer is two-fold, namely interest rate mismatch risk and basis risk. Interest rate mismatch risk is the most substantial risk affecting the Issuer's net interest income. It arises mainly as a result of differences in the timing of interest rate re-pricing for the Issuer's interest-earning assets and interest-bearing liabilities. Interest rate mismatch risk is most evident in those loan portfolios where the majority of the loans are floating-rate assets (benchmarked against the Prime Rate or HIBOR), while the majority of the Issuer's liabilities are fixed-rate debt securities. The Issuer makes prudent use of a range of financial instruments such as interest rate swaps, interest rate swaptions, basis swaps, forward rate agreements and issuances of MBS, to manage interest rate mismatch risk. The proceeds of the fixed-rate debt securities are generally swapped into HIBOR-based funds via interest rate swaps to better match the floating-rate incomes from mortgage assets.

The Issuer also uses the duration gap as an indicator to monitor, measure and manage interest rate mismatch risk. Duration gap measures the difference in interest rate re-pricing intervals between assets and liabilities. The wider the duration gap, the higher the interest rate mismatch risk. A positive duration gap means the duration of assets is longer than that of the liabilities, and therefore, represents greater risk exposure to rising interest rates. A negative duration gap, in contrast, indicates greater risk exposure to declining interest rates.

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. However, there are only limited financial instruments available in the market to fully hedge the Prime-HIBOR basis risk. In general, basis risk can be effectively addressed only when assets are based on HIBOR to match the funding base or when related risk management instruments become more prevalent or economical.

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. In addition, the Issuer can issue Prime-based MBS and use hedging derivatives to mitigate such basis risk.

(ii) Asset-liability maturity mismatch risk

The actual average life of a portfolio of mortgage loans and infrastructure loans, which is usually shorter than their contractual maturity, depends on the speed of scheduled repayments and unscheduled prepayments. Higher prepayment rates shorten the average life of a portfolio of mortgage loans. In Hong Kong, prepayment occurs for two main reasons: (i) housing turnover: borrowers repaying their mortgage loans upon the sales of the underlying properties; and (ii) refinancing :borrowers refinancing their mortgage loans to obtain lower mortgage rates.

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. The Issuer is exposed to refinancing risk in the funding amount and cost of funds when it uses short-term liabilities to finance long-term floating-rate loan portfolios.

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. In addition, the Issuer uses the issuance of callable bonds and transferable loan certificates to mitigate reinvestment risk. The call option embedded in callable bonds and transferable loan certificates allows the Issuer to adjust the average life of its liabilities to match more closely with that of the overall pool of assets.

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. The Issuer implements its liquidity risk management framework in response to changes in market conditions. The Issuer continuously monitors the impact of market events on its liquidity position, and pursues a prudent prefunding strategy to help contain the impact of any global financial turmoil on its liquidity.

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. The Issuer uses the liquid asset ratio to measure, monitor and manage liquidity risk.

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$30 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, so all foreseeable funding commitments are met when they fall due. This supports the growth of its business and the maintenance of a well-balanced liability portfolio. 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.$12 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.

- U.S.$3 Billion Bauhinia MBS Programme: This multi-currency mortgage-backed securitisation programme permits the Issuer to originate MBS in both the local and international markets.

- 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.

- HK$30 Billion RCF: The Exchange Fund commits to providing the Issuer with HK$30 billion 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.

In accordance with this prudent risk management principle, the net exposure of the foreign currency denominated debts issued under the Programme is fully hedged by the use of cross-currency swaps.

Transaction execution is segregated among the front, middle and back offices to ensure adequate checks and balances. The Treasury Department, acting as the front office, is responsible for monitoring financial market movements and executing transactions in the cash, derivatives, debt and securitisation markets, in accordance with strategies laid down by the ALCO. The Risk Management Department, assuming the middle-office role, monitors compliance with treasury counterparty and market risk limits. The Operations Department, acting as the back office, is responsible for deal verification, confirmation, settlement and the payment process.

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. It is responsible for reviewing and managing the market risk, including interest rate risk, asset-liability maturity mismatch risk, liquidity and funding risk, and currency risk. 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 Investment Portfolio (**IP**) and Long Term Growth Portfolio (**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 forum 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 and larger 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.

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 termination rate of the loans under the RMP, the PRMP and the annuity policies under the HKMC Annuity Plan depend largely on the mortality rate (that is, life expectancy) of the borrowers and the annuitants respectively. 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 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 forums 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 adopts a bottom-up approach to identify operational risk by conducting in-depth analyses of new products, business activities, processes, system enhancements and due diligence reviews of new operational flows. Comprehensive validation rules, management information system reports and audit trails are in place to track and report any errors or deficiencies.

The Issuer actively manages operational risk with its comprehensive system of 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. Steps are taken to ensure the accuracy, availability and security of these systems. 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.

The Issuer's business continuity plan ensures the maximum possible service levels are maintained at all units to support business continuity and minimise the impact of business disruption from different disaster scenarios. Each business unit regularly assesses the impact of disaster scenarios and updates recovery procedures. To ensure business recovery procedures are practical, an annual corporate-wide business continuity drill is conducted. Daily back-ups and offsite storage of back-up tapes are in place to protect the Issuer from IT disasters.

The ORC is responsible for ensuring 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 that may potentially indicate a control weakness, a failure or non-compliance in internal processes are logged, reported and handled for operational risk management. The ORC is also responsible for providing directions and resolving 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 risk arises from uncertainty in the application or interpretation of laws and regulations, and any unenforceability or ineffectiveness of legal documents in safeguarding the interests of the Group. Compliance risk arises from the failure to comply with laws, regulations, codes of practice and industry practices applicable to the Group.

The Legal Office, headed by the General Counsel, advises the Group on legal matters with a view to controlling legal risk. When new products or business activities are considered, the Legal Office will advise on the relevant laws and regulatory environment. It will also advise on the necessary legal documentation and identify possible legal pitfalls. The Legal Office works closely with other departments in the Group to advise on legal issues and documentation.

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.

(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 and issued the Guidelines on Capital Adequacy Ratio (**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 2019, the Issuer's CAR was 30.2 per cent.

The prudent use of regulatory capital is monitored closely in accordance with the capital guidelines. The Chief Executive Officer 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 Chief Executive Officer 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. As at 31 December 2019, the solvency ratios of the HKMCA and the HKMCI are 22 times and 39 times respectively.

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 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, JP
Non-Executive Director
Secretary for Financial Services and the Treasury

The Hon. Frank CHAN Fan, JP
Non-Executive Director
Secretary for Transport and Housing

The Hon. Jeffrey LAM Kin-fung, GBS, JP
Non-Executive Director
Member of Executive Council
Member of Legislative Council
Managing Director
Forward Winsome Industries Limited

The Hon. Horace CHEUNG Kwok-kwan, JP
Non-Executive Director
Member of Executive Council
Member of Legislative Council
Partner, Cheung & Yeung, Solicitors

Professor CHAN Ka-keung Ceajer, GBS, JP
Non-Executive Director

Adjunct Professor
The Hong Kong University of Science and Technology

Ms Anita FUNG Yuen-mei, BBS, JP
Non-Executive Director
Director
Hong Kong Exchanges and Clearing Limited

Mr Albert WONG Kwai-huen, BBS, JP
Non-Executive Director
Principal (Hong Kong Office)
Fried, Frank, Harris, Shriver & Jacobson

Mr Clement CHAN Kam-wing
Non-Executive Director
Managing Director – Assurance
BDO Limited

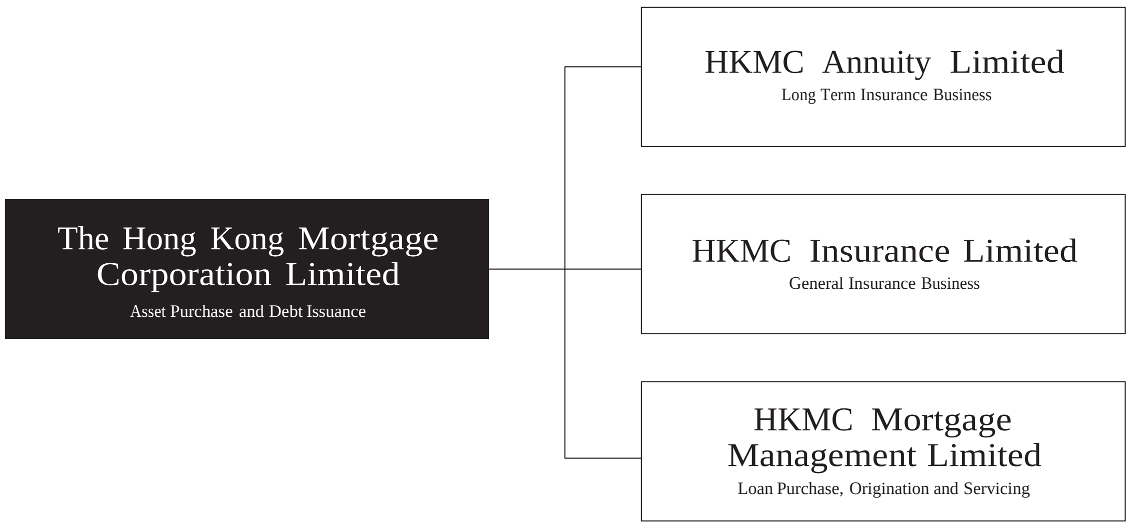
Mr Leong CHEUNG
Non-Executive Director
Executive Director, Charities and Community
The Hong Kong Jockey Club

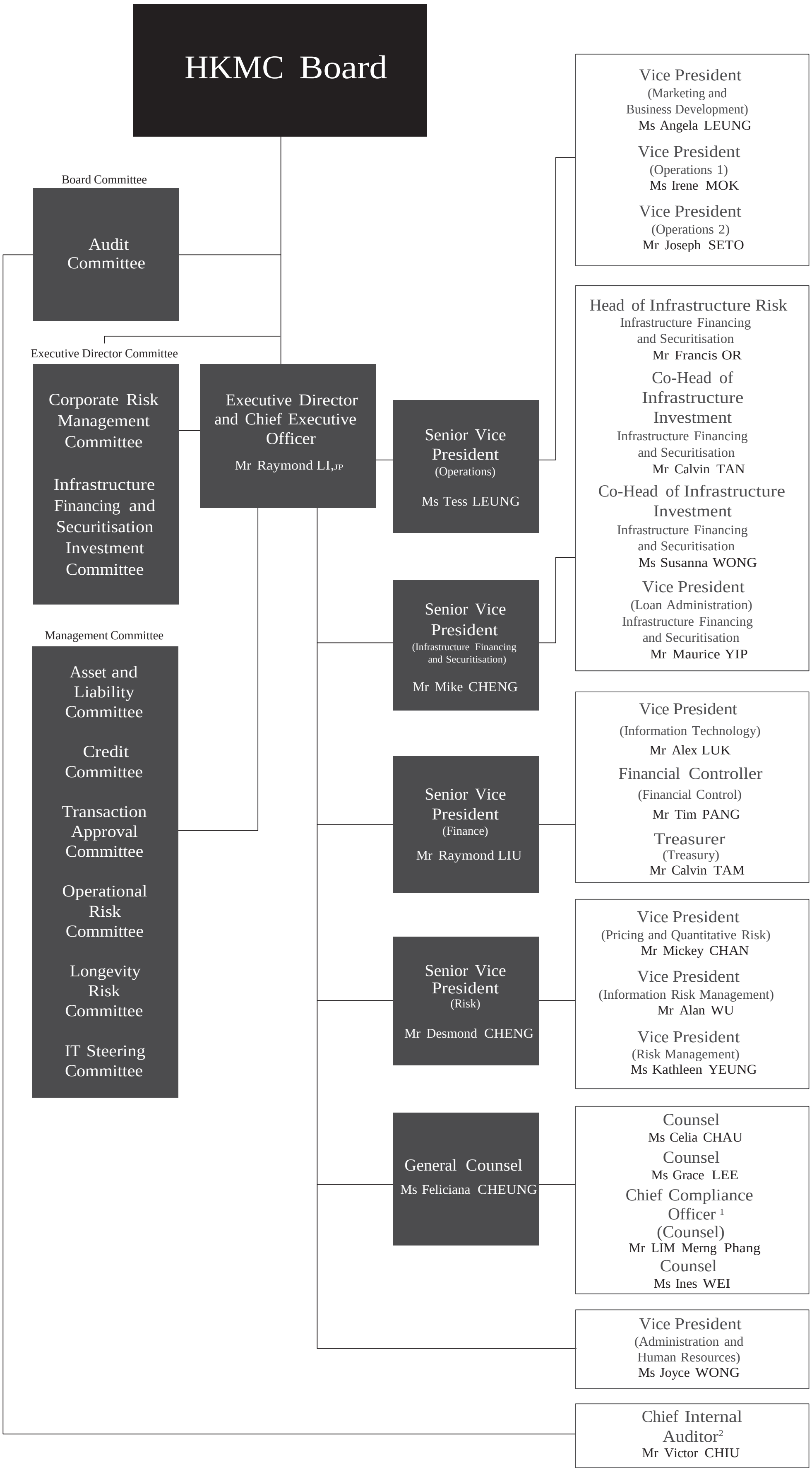
Senior Management of the Issuer

Members of the Issuer's senior management are:

Executive Director and Chief Executive Officer	LI Ling Cheung, Raymond JP
Senior Vice President (Operations)	LEUNG Ching Han (Tess LEUNG)
Senior Vice President (Finance)	LIU Chi Keung (Raymond LIU)
Senior Vice President (Risk)	CHENG Kam Chuen, Desmond
Senior Vice President (Infrastructure Financing and Securitisation)	CHENG Man Shun, Mansion (Mike CHENG)
General Counsel	CHEUNG, Feliciana Siu Wai

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 Service (together, the Clearing Systems) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believe 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.

Euro clear 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 Service

The CMU Service 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 Service.

The CMU Service 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 members of the Hong Kong Capital Markets Association, "authorized institutions" under the Banking Ordinance and other domestic and overseas financial institutions at the discretion of the HKMA.

Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of the CMU Members. The CMU Lodging Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

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 Service.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear and Clearstream will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System.

Clearstream and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among accountholders of Clearstream and Euroclear. 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 Clearstream or Euroclear 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 company, other than a financial institution, carrying on a trade, profession or business in Hong Kong; or

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(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.

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 Bearer Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. 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 Bearer Notes will be subject to profits tax. Similarly, such sums in respect of Registered Notes received by or accrued to either the aforementioned person and/or financial institution, person and/or corporation will be subject to Hong Kong profits tax if such sums have a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided either:

(i) such 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 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 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).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the value of the consideration. If, in the case of either the sale or purchase of such Registered Notes, stamp duty is not paid, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. 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.

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated programme agreement dated 26 June 2020 (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).

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 and 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 European Economic Area or 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 (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

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 Financial Services and Markets Act 2000 (**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 Directive), unless such offer is made in accordance with the Dutch Financial Supervision Act *(Wet op het financieel toezicht)*.

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 the 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 (Chapter 289) 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)(i)(B) 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.$6,000,000,000 to U.S.$12,000,000,000 has been duly authorised by resolutions of the Board of Directors of the Issuer dated 27 April 2020.

Listing of Notes on the SEHK

Application has been made to the SEHK for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from 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 registered office of the Issuer and 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 year ended 31 December 2019;

(iii) the 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 Bearer Notes accepted for clearance through the CMU Service. 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 2019.

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 at 22/F, Prince's Building, Central, Hong Kong, 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 2019.

Legal Entity Identifier Number of the Issuer

The Legal Entity Identifier Number of the Issuer is 254900W04TBDJ4UBOS04.

INDEX TO THE DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS

SUMMARY OF THE DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS

The information on pages F-4 to F-87 has been extracted from the Directors' Report and Audited Financial Statements of the Issuer as at and for the year ended 31 December 2019. Reference to page numbers on pages F-4 to F-87 are references to pages of such document. The page numbers of that document appear at the bottom of pages F-4 to F-87.

THE HONG KONG MORTGAGE CORPORATION LIMITED

DIRECTORS’ REPORT AND

AUDITED FINANCIAL STATEMENTS

31 DECEMBER 2019

DIRECTORS' REPORT

The 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 2019 (**Financial Statements**).

PRINCIPAL ACTIVITIES

The principal activities of the Group in the course of the year ended 31 December 2019 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 operate a centralised microfinance platform to support microfinance loans;

(e) to carry on the infrastructure financing and securitisation business;

(f) to operate a scheme for the Government providing guarantee on loans advanced by participating lenders for local non-listed enterprises, including small and medium enterprises (**SMEs**) and businesses with less operating history;

(g) 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; and

(h) to offer life annuity products in or from Hong Kong.

Details of subsidiaries of the Company as at 31 December 2019 are set out in Note 20 to the Financial Statements.

BUSINESS REVIEW

1. <u>Business Segments</u>

In the pursuit of its missions and social objectives, during the year, the Group operated on prudent commercial principles and engaged in business activities of loan guarantee, participation, origination and acquisition, mortgage insurance and life annuity mainly through the implementation and operation of the programmes, schemes and businesses below.

Mortgage Purchase Programme (**MPP**)

One of the missions of the Group is to enhance the stability of the banking sector in Hong Kong by offering a reliable source of liquidity. To achieve this mission, the Group stands ready to purchase mortgage loans and other assets from approved sellers as and when they have the need to offload. With ample liquidity in the market during the year, there was low incentive for banks to offload 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 homebuyers to reduce their down payment burden. Under the MIP, the Group acts as 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. Since the inception in March 1999, the MIP has gained increasing public receptiveness. In 2019, the total amount of mortgage loans drawn down under the MIP was HK$33.3 billion (2018: HK$32.5 billion).

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 could use their self-use 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 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 insurer to provide mortgage insurance cover for a premium on policy reverse mortgage loans advanced by participating lenders. Community-based promotions on the PRMP were staged during the year to engage broader segments of the society.

SME Financing Guarantee Scheme (**SFGS**)

SFGS is a market-based loan guarantee scheme providing 50% to 70% guarantee on loans advanced by participating lenders for assisting local non-listed enterprises (including SMEs) to meet their funding needs for working capital or acquisition of equipment and assets in support of their business operations. As the Government's continued support for SME bank financing, the Group continues to operate the 80% guarantee product under the SFGS (**80% SFGS**) on the backing of the Government's total guarantee commitment up to HK$100 billion to enable SMEs to improve liquidity, grasp economic opportunities and boost competiveness.

In 2019, as part of the Government's successive relief packages for SMEs to tide over the economic downturn, the offer period and the three 2018 enhancements (namely, annual guarantee rate halved, maximum facility amount raised and maximum guarantee period extended) of the 80% SFGS were further extended to mid-2022; a new enhancement for the 80% SFGS was launched in September to offer, with a one-year offer period, a renewable principal moratorium up to twelve months for the whole of the initial and renewed periods; and the Group timely rolled out, with the offer period to end in mid-2022, a new 90% guarantee product under the SFGS on the backing of the Government's total guarantee commitment up to HK$33 billion to help smaller-sized enterprises and businesses with relatively less operating experience to obtain financing.

During the year, the Group maintained close communication with participating banks, SME associations as well as commerce and industry chambers and provided regular and tailor-made training for lenders' staff members to promote the more active use of the SFGS.

HKMC Annuity Plan (**Plan**)

The Plan is launched with the aim of facilitating retirement planning and promoting the development of the local annuity market. The Plan provides an alternative retirement financial solution, and helps the elderly turn their lump sum cash into a stream of fixed monthly income for life. The Group acts as insurer to offer and issue annuity policies for a premium under the Plan.

During the year, the Group continued to play an important role in fostering the development of the local annuity market. The Group stepped up its promotional and educational efforts which had successfully raised the public awareness of longevity risk management and the importance of retirement financial planning, thereby contributing to the rapid development of the local annuity market. The Plan underwent ongoing enhancements (including increase of maximum premium amount and a six-month premium discount campaign) to better serve the needs of the aging population. The annuity business of the Group recorded a noticeable growth of HK$1.6 billion in premium receipts, reaching an accumulated premium receipt amount of HK$4.4 billion in 2019 since its launch in mid-2018.

Infrastructure Financing and Securitisation (**IFS**)

The new IFS business will enable the Group to leverage its strong credit standing and medium-to-long term funding capability to further its mandates of promoting the long-term stability of banking sector and development of debt market in Hong Kong by facilitating infrastructure investment and financing flows against the enormous and widening funding gap in the international infrastructure financing market.

During the year, the Group started the new IFS business and carried out the approved business plan based on prudent commercial principles and under a robust risk management framework.

Microfinance Scheme (**MFS**)

MFS is launched with the aim of offering loans at affordable rates and ancillary supporting services to eligible persons who wish to start their own businesses, become self-employed or achieve self-enhancement through training, upgrading of skills or obtaining professional certification. As approved by the Directors, the MFS expired and ceased to accept application at the end of 2019.

2. **Market Environment**

The global economy experienced a synchronised slowdown in 2019, beset with considerable downward pressures from an array of factors including the escalation of US-China trade tensions, risk of a hard Brexit and heightened geopolitical tensions in the Middle East. Economic growth in the US eased and that in the euro area was modest. The Mainland economy attained its growth target, although with a decelerated growth momentum.

Faced with significant external headwinds, the Hong Kong economy was already quite weak in the first half of 2019. Aggravated by the severe blow from the local social incidents, the economy deteriorated abruptly in the second half of the year and recorded its first annual contraction since 2009. The residential property market has been consolidating since June after staying generally active during the first five months of 2019. Yet, the downward adjustment had been moderate and property prices were still out of line with economic fundamentals and affordability of the general public.

3. **Financial Performance**

Profit attributable to shareholder increased to HK$317 million (2018: HK$127 million). The increase in profitability was primarily attributable to the decrease in the accounting loss as a result of the decrease in provisions for maintaining prudent statutory reserves based on actuarial assumptions for the Group's annuity business along with lower business intake during the year and the increase in investment return on the placements with the Exchange Fund. Notwithstanding that, the increase in profit was partly offset by additional resources utilised for the Group's missions and certain policy initiatives of the Government. Accordingly, return on equity was 2.1% (2018: 0.9%) while cost-to-income ratio decreased to 58.7% (2018: 86%). Despite the reported accounting loss on annuity business, the embedded value of the annuity business was about HK$5.3 billion, indicating that the business should be profitable in the long term. A summary of the Group's financial performance is set out below.

	2019[4]	2018
Profit attributable to shareholder (HK$ million)	317	127
Return on shareholder's equity[1]	2.1%	0.9%
Cost-to-income ratio[2]	58.7%	86.0%
Capital adequacy ratio[3]	30.2%	26.8%

Key items in the Group's income statement for 2019 are highlighted as follows:

(a) net interest income for the year decreased by HK$12 million to HK$524 million, mainly due to the reduction of average mortgage loan portfolio as a result of loan repayment and prepayment, partially cushioned by the purchase of infrastructure loans during the year and increase in other average interest-earning assets (i.e. cash and debt investments);

(b) net mortgage insurance premiums earned were HK$196 million (2018: HK$222 million);

(c) net insurance-related results for annuity business (i.e. the sum of net premiums earned, net claims incurred, benefits paid, movement in policyholders' liabilities, and commission and levy expenses) recorded a loss of HK$387 million (2018: HK$550 million), mainly attributable to the prudent statutory reserves based on actuarial assumptions, whereas investment returns on capital and premiums placed with the Exchange Fund were booked to other income;

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1 Return on shareholder's equity is calculated by dividing profit attributable to shareholder with 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 with the sum of operating income, net claims incurred, benefits paid, movement in policyholders' liabilities, and 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 excluding the accounting loss as a result of maintaining prudent statutory reserves based on actuarial assumptions for annuity business by the HKMC Annuity Limited, a wholly-owned subsidiary of the Company, the adjusted profit attributable to shareholder, return on shareholder's equity and cost-to-income ratio for 2019 would be HK$443 million, 4.2% and 41.8% respectively (2018: HK$515 million, 5.1% and 36.7% respectively).

(d) other income was HK$465 million (2018: HK$250 million), mainly representing investment income of HK$465 million (2018: HK$185 million) from placements with the Exchange Fund, net gain of HK$33 million (2018: net loss of HK$14 million) on investments at fair value through profit or loss, dividend income of HK$20 million (2018: HK$59 million) from investments, and exchange loss of HK$38 million (2018: gain of HK$12 million); and

(e) operating expenses were HK$480 million, less than budget, to support the Group's missions and the Government's certain policy initiatives.

4. Financial Position

As at 31 December 2019, total assets of the Group amounted to HK$67.5 billion. Key changes in the Group's financial position are as follows:

(a) cash and short-term funds slightly decreased by HK$1.5 billion to HK$27.9 billion;

(b) investment portfolio slightly increased by HK$0.1 billion to HK$17.3 billion, representing a total investment of HK$0.4 billion in exchange-traded bond funds and in real estate investment trusts classified as investments at fair value through profit or loss, and debt investments of HK$12.0 billion classified as amortised cost investments and of HK$4.9 billion classified as investments at fair value through other comprehensive income;

(c) placements with the Exchange Fund amounted to HK$12.9 billion as capital investments of HKMC Insurance Limited (**HKMCI**) and HKMC Annuity Limited (**HKMCA**) and premium investments of the HKMCA;

(d) loan portfolio recorded an increment of HK$0.5 billion to HK$6.9 billion, mainly attributable to purchase of infrastructure loans, partially offset by the repayment and prepayment of mortgage loan portfolio;

(e) outstanding balance of debt securities issued increased by HK$2.4 billion to HK$39.7 billion;

(f) insurance liabilities were HK$6.5 billion (2018: HK$4.6 billion), primarily due to the increase in insurance liabilities for annuity business;

(g) capital and reserves attributable to equity holder increased by HK$0.3 billion to HK$15.2 billion; 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 respectively HK$23.1 billion (2018: HK$19.7 billion) and HK$11.2 billion (2018: HK$9.6 billion). The RMP reinsurance arrangement started in 2019.

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 30.2% as at 31 December 2019 (31 December 2018: 26.8%), well above the minimum ratio of 8% stipulated in the Guidelines. The respective solvency ratios of the HKMCI and the HKMCA as at 31 December 2019 were about 39 times (31 December 2018: 42 times) and 22 times (31 December 2018: 34 times), 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 the credit risk of its loan and investment portfolios through mortgage purchase, mortgage insurance, commercial loan guarantee, funding of retail loans 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. In 2019, the Group started to take on infrastructure loans which are exposed to project financing credit risk. 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 2019 are set out in Note 3 to the Financial Statements.

7. **The Group's Environmental Policies and Performance**

During the year, the Group continued to support and implement various green measures to create a more environmentally friendly office and to raise employees' awareness of methods of waste reduction and energy conservation.

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 have a significant impact on the Group.

9. **Particulars of Important Events affecting the Group that have occurred since end 2019**

As announced in the 2020-21 Budget and in early April 2020, as part of its counter-cyclical measures, the Government commissioned the Group to launch: (a) a new 100% guarantee product under the SFGS with a twelve-month offer period to support SME bank financing on the backing of the Government's total guarantee commitment up to HK$50 billion, (b) further enhancements to the 80% and 90% guarantee products under the SFGS, and (c) a pilot scheme to purchase fixed-rate residential mortgages in Hong Kong in an aggregate loan amount up to HK$1 billion. Notwithstanding the launch of such new SFGS product and enhancements and pilot scheme may increase the related operating costs of the Group, the Group will continue to render full support to the Government in administering the 80% SFGS and the other new SFGS products as well as the pilot scheme for fixed-rate mortgage purchase. Please also refer to Note 32 to the Financial Statements for any other relevant important events.

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 core 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, a promising career path 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 considerable resources to the continuing enhancement of its employees' professional knowledge and skills. All new employees were provided with an induction session to provide them with a foundation of knowledge about the Group's organisational structure, missions, functions and policies.

As at 31 December 2019, the permanent staff establishment of the Group was 327 (2018: 309) and the staff turnover rate was 9.37% (2018: 8.92%).

Counterparties

With respect to its loan and insurance portfolios, as at 31 December 2019, the Group maintained a panel of 34 approved sellers and 32 approved servicers under the MPP, 7 approved reinsurers under the MIP as well as 4 non-governmental organisations under the MFS. In addition, there were 20 participating lenders under the MIP, 10 under the RMP, 6 under the PRMP, 5 under the MFS and 31 under the SFGS. In relation to the annuity business, there were 20 agent banks and 3 referral banks for the Plan at the end of the year.

DEBT SECURITIES

The Company issued notes with a total nominal value of HK$31.9 billion under its multi-currency US$6 Billion Medium Term Note Programme for a consideration of around HK$31.8 billion during the year ended 31 December 2019. The proceeds of the notes issued during the year were used for the purpose of providing general working capital for the Group. A summary of the debt securities issuance and redemption activities of the Group is set out in Note 26 to the Financial Statements.

DIVIDEND

Having considered the capital requirements for the business development, Directors recommended that no dividend be declared for 2019 (2018: Nil).

DIRECTORS

Persons who served as Directors during the year or during the period beginning with the end of the year and ending on the date of this report, but preceding the forthcoming annual general meeting of the Company, 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 (designated as Deputy Chairman on 1 October 2019)

Mr Howard LEE Tat-chi, JP
Executive Director (appointed on 1 October 2019)

Mr Raymond LI Ling-cheung, JP
Executive Director and Chief Executive Officer

The Hon. James Henry LAU Jr., JP
Non-Executive Director

The Hon. Frank CHAN Fan, JP
Non-Executive Director

The Hon. Jeffrey LAM Kin-fung, GBS, JP
Non-Executive Director

The Hon. Horace CHEUNG Kwok-kwan, JP
Non-Executive Director

The Hon. Dennis KWOK Wing-hang
Non-Executive Director

Professor CHAN Ka-keung Ceajer, GBS, JP
Non-Executive Director

Ms Anita FUNG Yuen-mei, BBS, JP
Non-Executive Director

Mr Albert WONG Kwai Huen, BBS, JP
Non-Executive Director

Mr Clement CHAN Kam-wing
Non-Executive Director (appointed on 17 May 2019)

Mr Leong CHEUNG
Non-Executive Director

Mr Norman CHAN Tak-lam, GBS, JP
Deputy Chairman and Executive Director (resigned on 1 October 2019)

Professor WONG Yuk-shan, SBS, BBS, JP
Non-Executive Director (retired on 17 May 2019)

Mr Thomas Brian STEVENSON, GBS, JP
Non-Executive Director (retired on 17 May 2019)

Ms Estella WONG Sheun-fun (alias Mrs CHIU, Estella Sheun-fun)
Non-Executive Director (retired on 17 May 2019)

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.

Other than the Directors named above, persons who (or as the case may be, entities which) served on the boards (or as the case may be, the sole director) of the other members of the Group during the year and during the period beginning with the end of the year and ending on the date of this report are Mr Norman CHAN Tak-lam (resigned), Mr Eddie YUE Wai-man, Mr Howard LEE Tat-chi, Mr Raymond LI Ling-cheung, Mr YUNG Wai-sun, Mr Leong CHEUNG, Ms Estella WONG Sheun-fun (alias Mrs CHIU, Estella Sheun-fun), Mr Nelson LAM Chi-yuen, Mr Lawrence LAW Hong-ping, Ms Juliana LAM Lai-ha, Mr LAU Ying-pan (resigned), Mrs Agnes KOON WOO Kam-oi, Ms Agnes TSO Miu-yue, Mr Kenneth YU Yuk-wing, Ms LEUNG Ching-han, Mr Mansion CHENG Man-shun, Mr LIU Chi-keung, Mr Desmond CHENG Kam-chuen, Ms CHEUNG, Feliciana Siu Wai, Mrs SENG SZE Ka Mee Natalia (resigned), Ms LO Yee Har Susan (resigned), Ms CHOY Yee Man (also served as Alternate Director to Ms HO Siu Pik), Ms HO Siu Pik (also served as Alternate Director to Ms CHOY Yee Man), Intertrust Directors (Cayman) Limited and Company Kit Secretarial Services Limited.

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 2019 and is in force as at the date of this report.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

At no time during the year ended 31 December 2019, there subsisted or entered into any 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.

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
27 April 2020

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") set out on pages 15 to 84, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 a summary of significant accounting policies.

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 2019, 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.

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 loan portfolios
- Measurement of insurance contract liabilities

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Impairment allowances on loan portfolios Refer to note 17 to the consolidated financial statements. As at 31 December 2019, the Group recorded loan impairment allowances of HK$1,588,000 relating to the gross mortgage loan portfolio of HK$4,910,217,000 and the gross non-mortgage loan portfolio of HK$2,019,416,000 (2018: HK$666,000, HK$6,179,353,000 and HK$263,377,000, respectively). The Group built an expected credit losses ("ECL") model for estimating impairment allowances on its loan portfolio. The Group also established governance process and controls for the measurement of impairment allowances of the loan portfolio. Impairment allowances on the loan portfolios represent management's best estimate of the expected losses within the loan portfolios as at the balance sheet date. Allowances for impairment are made for loans with significant increase in credit risk since initial recognition and for loans that are credit impaired with reference to the life time expected credit losses. Allowances for impairment are made for performing loans with reference to the 12-month expected credit losses. These allowances are based on reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions at	Our audit procedures in relation to management's ECL assessment on the loan portfolios included the following: • Understanding and evaluating the internal controls relating to the measurement of ECL; • Testing of the controls that management has established over the valuation of collateral; • Performing independent sample checking of the collateral's value to various external independent valuation quotes to the extent available; • For loans with significant increase in credit risk since initial recognition and for loans that are credit impaired, assessing a sample of these loans for timely identification and for testing the corresponding impairment calculation; • Assessing the overall reasonableness of the ECL as at 31 December 2019. We found that management's judgements used in calculating the expected impairment were supported by the evidence obtained. We also found that the models and assumptions used in calculating the impairment allowances on the loan portfolios were supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
the reporting date. The audit focused on loan impairment allowances because both the determination of the expected impairment and the underlying calculations are inherently subject to significant judgement by management.	
Measurement of insurance liabilities Refer to note 25 to the consolidated financial statements. HKMC Annuity Limited (a wholly-owned subsidiary of the Company) has launched the HKMC Annuity Plan (the "Plan") in July 2018 and it has issued insurance contracts with premiums amounting to HK$1,631 million for the year ended 31 December 2019 (2018: HK$2,780 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 based on HKFRS 4 "Insurance Contracts" and the Hong Kong insurance regulatory requirements. The liabilities recognised amounted to HK$5,027 million (2018: HK$3,284 million), being approximately 10% of the total consolidated liabilities of the Group as at 31 December 2019 (2018: 7%). 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's judgement. Therefore, this is identified as a key audit matter in our audit. 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.	Our audit procedures in relation to the measurement of insurance contract liabilities included the following: • Evaluating the internal controls over the actuarial process of the valuation of life insurance contract liabilities. With the involvement of our PwC actuarial experts, we have carried out the following procedures in relation to the insurance contract liabilities: • 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 and mortality rates, and management's rationale for the judgment applied; and • Evaluating the overall reasonableness of the insurance contract liabilities. Based on the work performed, we considered the key assumptions and methodologies appropriate for the valuation of the insurance contract liabilities.

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, but does not include 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.

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.

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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 April 2020

THE HONG KONG MORTGAGE CORPORATION LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019**	2018
		HK$'000	HK$'000
Interest income	6	**1,470,479**	1,229,710
Interest expense	7	**(946,488)**	(693,501)
Net interest income		**523,991**	536,209
Net premiums earned	8	**1,987,650**	3,157,652
Other income	9	**465,397**	249,633
Total operating income		**2,977,038**	3,943,494
Net claims incurred, benefits paid and movement in policyholders' liabilities	8	**(2,021,558)**	(3,321,037)
Net commission and levy expenses	8	**(138,361)**	(142,991)
Operating expenses	10	**(479,651)**	(412,388)
Operating profit before impairment		**337,468**	67,078
Charge of impairment allowances	12	**(934)**	(134)
Profit before taxation		**336,534**	66,944
Taxation	13(a)	**(19,073)**	59,614
Profit for the year		**317,461**	126,558

The notes on pages 20 to 84 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 2019

	Note	**2019**	2018
		HK$'000	HK$'000
Profit for the year		**317,461**	126,558
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		**27,311**	(7,182)
- change in the loss allowance, net	12	**(46)**	14
Other comprehensive income / (loss) for the year, net of tax		**27,265**	(7,168)
Total comprehensive income for the year		**344,726**	119,390

The notes on pages 20 to 84 are an integral part of these consolidated financial statements.

THE HONG KONG MORTGAGE CORPORATION LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	**2019**	2018
		HK$'000	HK$'000
ASSETS			
Cash and short-term funds	14	**27,908,184**	29,390,855
Interest and remittance receivables	15	**518,691**	437,919
Derivative financial instruments	16	**200,702**	161,047
Loan portfolio, net	17	**6,928,045**	6,442,064
Investment securities:			
- fair value through other comprehensive income	18(a)	**4,920,402**	5,091,664
- fair value through profit or loss	18(b)	**378,803**	543,612
- amortised cost	18(c)	**12,034,506**	11,546,833
Placements with the Exchange Fund	19	**12,881,627**	7,734,934
Prepayments, deposits and other assets	21	**1,337,349**	829,491
Deferred tax assets	13(b)	**79,170**	77,866
Reinsurance assets	25	**208,991**	171,518
Fixed assets	22	**109,864**	53,766
Total assets		**67,506,334**	62,481,569
LIABILITIES			
Interest payable	23	**372,874**	257,468
Accounts payable, accrued expenses and other liabilities	24	**5,261,217**	5,061,679
Derivative financial instruments	16	**299,935**	264,386
Current tax liabilities	13(b)	**123,115**	104,077
Insurance liabilities	25	**6,501,639**	4,607,373
Debt securities issued	26	**39,710,963**	37,292,877
Total liabilities		**52,269,743**	47,587,860
EQUITY			
Capital and reserves attributable to the equity holder:			
Share capital	27	**7,000,000**	7,000,000
Retained profits		**6,553,108**	6,263,342
Contingency reserve		**1,658,669**	1,632,818
Fair value reserve		**24,814**	(2,451)
Total equity		**15,236,591**	14,893,709
Total liabilities and equity		**67,506,334**	62,481,569

Approved and authorised for issue by the Board of Directors on 27 April 2020.

Eddie W. M. Yue	Raymond L. C. Li
Deputy Chairman and Executive Director	Executive Director and Chief Executive Officer

The notes on pages 20 to 84 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 2019

	Share capital	Retained profits	Contingency reserve	Fair value reserve	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance as at 1 January 2018	2,000,000	6,089,765	1,679,837	4,717	9,774,319
Profit for the year	-	126,558	-	-	126,558
Other comprehensive income	-	-	-	(7,168)	(7,168)
Total comprehensive income for the year	-	126,558	-	(7,168)	119,390
Capital injection (Note 27)	5,000,000	-	-	-	5,000,000
Transfer of 50% or 75% of net risk premium earned from retained profits to contingency reserve	-	(209,261)	209,261	-	-
Release of contingency reserve to retained profits	-	256,280	(256,280)	-	-
Balance as at 31 December 2018	7,000,000	6,263,342	1,632,818	(2,451)	14,893,709
Changes on adoption of HKFRS 16 (Note 2.1)	-	(1,844)	-	-	(1,844)
Restated balance as at 1 January 2019	**7,000,000**	**6,261,498**	**1,632,818**	**(2,451)**	**14,891,865**
Profit for the year	**-**	**317,461**	**-**	**-**	**317,461**
Other comprehensive income	**-**	**-**	**-**	**27,265**	**27,265**
Total comprehensive income for the year	**-**	**317,461**	**-**	**27,265**	**344,726**
Transfer of 50% or 75% of net risk premium earned from retained profits to contingency reserve	**-**	**(189,875)**	**189,875**	**-**	**-**
Release of contingency reserve to retained profits	**-**	**164,024**	**(164,024)**	**-**	**-**
Balance as at 31 December 2019	**7,000,000**	**6,553,108**	**1,658,669**	**24,814**	**15,236,591**

The notes on pages 20 to 84 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 2019

	Notes	**2019**	2018
		HK$'000	HK$'000
Cash flows from operating activities			
Operating profit		**336,534**	66,944
Adjustment for:			
Interest income		**(1,476,616)**	(1,243,385)
Interest expense		**881,654**	632,864
Dividend income	9	**(20,019)**	(58,626)
Income from placements with the Exchange Fund	9	**(464,693)**	(184,934)
Depreciation	10	**81,037**	19,371
Amortisation of discount on debt securities issued		**64,834**	60,637
Charge of impairment allowances	12	**934**	134
Amortisation of premium on investment securities		**6,137**	13,675
Net (gain) / loss on investments at fair value through profit or loss	9	**(33,037)**	13,500
Change in fair value of financial instruments		**(7,372)**	(10,947)
Net gain on disposal of investment at fair value through other comprehensive income	9	**(75)**	-
Net gain on disposal of investment at amortised cost		**-**	(192)
Loss on disposal of fixed assets		**510**	-
Interest received		**1,381,156**	1,148,331
Interest paid		**(766,248)**	(567,529)
Cash flows from operating activities before changes in operating assets and liabilities		**(15,264)**	(110,157)
Change in time deposits with original maturity of more than three months		**(1,338,000)**	(4,422,000)
Change in remittance receivables		**14,688**	1,113
Change in prepayments, deposits and other assets		**(510,798)**	(762,688)
Change in loan portfolio		**(486,895)**	1,387,357
Change in accounts payable, accrued expenses and other liabilities		**152,718**	(301,584)
Change in insurance liabilities, net		**1,856,793**	3,470,306
Exchange differences		**71,088**	(11,553)
Cash used in operation		**(255,670)**	(749,206)
Taxation paid		**(1,339)**	(29,817)
Net cash used in operating activities		**(257,009)**	(779,023)
Cash flows from investing activities			
Purchase of fixed assets	22	**(38,337)**	(38,808)
Purchase of investment securities at fair value through other comprehensive income		**(1,679,612)**	(1,307,246)
Purchase of investment securities at fair value through profit or loss		-	(16,644)
Purchase of investment securities at amortised cost		**(2,176,283)**	(1,855,361)
Proceeds from sale and redemption of investment securities		**3,675,539**	3,465,235
Placements with the Exchange Fund		**(4,682,000)**	(7,550,000)
Dividend received from listed investments		**20,019**	58,626
Net cash used in investing activities		**(4,880,674)**	(7,244,198)
Net cash outflows before financing		**(5,137,683)**	(8,023,221)
Cash flows from financing activities			
Proceeds from bank borrowings		**25,418,080**	27,467,772
Repayment of bank borrowings		**(25,417,451)**	(27,467,772)
Proceeds from issue of debt securities	26	**31,843,819**	34,006,865
Redemption of debt securities issued	26	**(29,474,462)**	(31,289,536)
Principal elements of lease payments		**(51,392)**	-
Proceeds from capital injection	27	-	5,000,000
Net cash generated from financing activities		**2,318,594**	7,717,329
Net decrease in cash and cash equivalents		**(2,819,089)**	(305,892)
Beginning cash and cash equivalents		**14,777,801**	15,086,190
Effect of exchange rates on cash and cash equivalents		**(1,529)**	(2,497)
Ending cash and cash equivalents	14	**11,957,183**	14,777,801

The notes on pages 20 to 84 are an integral part of these 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 2019

- HKFRS 16 "Leases"

  HKFRS 16 supersedes HKAS 17 "Leases", HK(IFRIC) 4 "Determining whether an Arrangement contains a Lease", HK(SIC) 15 "Operating Leases-Incentives" and HK(SIC) 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

  The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (**short-term leases**), and lease contracts for which the underlying asset is of low value (**leases of low-value assets**).

In accordance with the transitional provisions of HKFRS 16, comparative figures have not been restated.

The effect of adoption of HKFRS 16 as at 1 January 2019 is as follows:

	Increase / (decrease) **HK$'000**
Assets	
Fixed assets	
- Right-of-use assets	**105,090**
- Leasehold improvement	**(5,782)**
Prepayments, deposits and other assets	
- Prepayments	**(2,940)**
	96,368
Liabilities	
Accounts payable, accrued expenses and other liabilities	
- Lease liabilities	**97,165**
- Provisions	**1,047**
	98,212
Equity	
Retained profits	**(1,844)**

The Group has property lease contracts mainly for office premises. Before the adoption of HKFRS 16, the Group classified leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and accrued expenses, respectively.

Upon adoption of HKFRS 16, the Group applied a single recognition and measurement approach for all leases. The standard provides specific transition requirements which has been applied by the Group. In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;

- relying on previous assessments on whether leases are onerous as alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate of 2.5% at the date of initial application. The incremental borrowing rate is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The operating lease commitments disclosed as at 31 December 2018 were HK$104 million. Upon the adoption of HKFRS16 on 1 January 2019, the right-of-use assets recognised were HK$105 million while the lease liabilities recognised were HK$97 million. The differences between the operating lease commitments discounted using the incremental borrowing rate and the total lease liabilities recognised in the consolidated statement of financial position at the date of initial application of HKFRS 16 mainly related to prepaid lease payments.

The other standards and amendments effective in 2019 have no material impact on the Group.

(b) New standards and amendments issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- HKFRS 17 "Insurance Contracts" establishes a comprehensive global insurance standard which provides guidance on the recognition, measurement, presentation and disclosures of insurance contracts. The standard requires entities to measure insurance contract liabilities at their current fulfilment values. The Group is yet to assess the full impact of the standard on its financial position and results of operations. The new standard is effective for annual periods beginning on or after 1 January 2021 and will be applied retrospectively with restatement of comparatives unless impracticable. However, HKICPA is considering delaying the mandatory implementation date by one year and may make additional changes to the standard. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRSs that are not yet effective that would be expected to have a material impact on the Group.

2.2. Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2019.

Subsidiaries are entities (including structured entities used for issuing mortgage-backed securities, namely HKMC Funding Corporation (1) Limited and Bauhinia MBS Limited) 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.

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
- 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. For investments in debt instruments, this will depend on the business model in which the investment is held.

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.

(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. Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. 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) other financial liabilities.

The notes (including those issued with embedded derivative instruments) designated as at fair value through profit or loss upon initial recognition are carried at fair value, with changes in fair value being recorded in the income statement. Those notes which are designated as hedged items under a fair value hedge are adjusted for the fair value changes subject to the risk being hedged.

The notes designated as other financial liabilities 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.

2.7. 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.

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.

2.8. 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.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various 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.

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. 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.

2.9. 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.

2.10. Repossessed assets

Repossessed collateral assets are accounted as assets held for sale and reported in “Other assets” and the relevant loans are derecognised. The repossessed collateral assets are measured at lower of carrying amount and fair value less costs to sell.

2.11. 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.

2.12. 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.

2.13. 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.

Leasehold improvements	over the unexpired period of the lease
Furniture and fixtures	over the unexpired period of the lease
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.

2.14. 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.

2.15. 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.

Current tax is calculated on the basis of the tax rates enacted or substantively enacted at the end of the reporting period.

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 related to cash flow hedges, which are charged or credited directly to OCI, is also credited or charged directly to OCI and is subsequently recognised in the income statement together with the deferred gain or loss.

2.16. 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.

2.17. 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.

2.18. Leases

(a) As a lessee

Accounting policies applicable from 1 January 2019

(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.

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 it 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.

Accounting policies applied prior to 1 January 2019

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The Group entered into operating leases primarily as lessee. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Finance leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. The Group entered into finance leases primarily as lessor.

(b) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. Finance leases are capitalised as receivables at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. Hire purchase contracts having the characteristics of a finance lease are accounted for in the same manner as finance leases. Impairment allowances are accounted for in accordance with the accounting policies for loan portfolio as set out in Note 3.2.

2.19. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, 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.

2.20. 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 2.21(b).

2.21. Insurance and other guarantee contracts

(a) Mortgage insurance contracts

The mortgage insurance business under the Mortgage Insurance Programme (**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 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**) and non-listed enterprises, in return for a guarantee fee, insurance coverage on reverse mortgage loans and policy reverse mortgage loans provided to elderly people, and on lump-sum loans provided to owners of properties of subsidised housing schemes primarily for land premium settlement, 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.

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.

2.22. Dividend distribution

Dividend proposed or declared after the end of each reporting period is disclosed as a liability in the period in which the dividends are approved by shareholder.

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 operate a centralised microfinance platform to support microfinance loans; (iv) to develop new business initiative on infrastructure financing; (v) 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; (vi) to operate a scheme for the Government of the Hong Kong Special Administrative Region (**Government**) providing guarantee on loans advanced by participating AIs to eligible SMEs and local non-listed enterprises; and (vii) 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 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**) and Operational Risk Committee (**ORC**) which report to the Corporate Risk Management Committee.

The IFSIC executes overight and approval authority over all investments in infrastructure loans. The Credit Committee oversees the credit policies and standards for asset acquisition and Microfinance Scheme. 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 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 and loan portfolio. 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 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.

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 asset 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. Operation 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

The principal collateral types for mortgage portfolio mainly consist of properties located in Hong Kong and the deferred consideration (Note 24). For finance lease receivable, the collateral types include taxi and public light bus licenses. Mortgage portfolio and finance lease 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.

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 International Swaps and Derivatives Association 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 its major counterparties in conjunction with the master agreement. Under CSA, collateral is passed between the parties to 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:

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, prepayments, deposits and other assets are also subject to the impairment requirements of HKFRS 9, and the identified impairment allowance was immaterial.

(a) Loan portfolio

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 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

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.

The following table contains an analysis of the credit risk exposure of loan portfolio for which impairment allowance is recognised.

As at 31 December 2019	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross carrying amount	**6,917,554**	**8,167**	**3,912**	**6,929,633**
Impairment allowance	**(813)**	**-**	**(775)**	**(1,588)**
Carrying amount	**6,916,741**	**8,167**	**3,137**	**6,928,045**

As at 31 December 2018	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross carrying amount	6,435,587	1,615	5,528	6,442,730
Impairment allowance	(47)	(151)	(468)	(666)
Carrying amount	6,435,540	1,464	5,060	6,442,064

The impairment allowance for loan portfolio as at 31 December 2019 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 2018	5	-	383	388
Net measurement of impairment arising from transfer of stage	-	485	516	1,001
Movement due to changes in credit risk	42	-	-	42
Recoveries of loans not written-off	-	(8)	(135)	(143)
	42	477	381	900
Transfer to stage 3	-	(326)	326	-
Write-offs	-	-	(622)	(622)
Impairment allowance as at 31 December 2018 (Note 17)	47	151	468	666
Loans purchased	**703**	**-**	**-**	**703**
Net measurement of impairment arising from transfer of stage	**-**	**285**	**491**	**776**
Movement due to changes in credit risk	**63**	**-**	**-**	**63**
Recoveries of loans not written-off	**-**	**(22)**	**(134)**	**(156)**
	766	**263**	**357**	**1,386**
Transfer to stage 3	**-**	**(414)**	**414**	**-**
Write-offs	**-**	**-**	**(464)**	**(464)**
Impairment allowance as at 31 December 2019 (Note 17)	**813**	**-**	**775**	**1,588**
Charge of loan impairment allowance	**766**	**263**	**357**	**1,386**
Recoveries and release of loans previously written-off	**-**	**-**	**(472)**	**(472)**
Total charge / (write-back) of impairment allowance recognised in profit or loss (Note 12)	**766**	**263**	**(115)**	**914**

(b) Cash and short-term funds

The impairment allowance for cash and short-term funds as at 31 December 2019 reconciles to the opening impairment allowance as follows:

	HK$'000
Impairment allowance as at 1 January 2018	1,041
Change in the impairment allowance recognised in profit or loss during the period	(95)
Impairment allowance as at 31 December 2018 (Note 14)	946
Change in the impairment allowance recognised in profit or loss during the period (Note 12)	**53**
Impairment allowance as at 31 December 2019 (Note 14)	**999**

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.

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.

As at 31 December 2019 and 31 December 2018, the minimum acceptable short-term credit ratings are A-2 (Standard and Poor's), P-2 (Moody's) and F-2 (Fitch).

(c) 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). In the absence of issue-specific ratings, the ratings for the issuers are reported.

	Investment securities at FVOCI	**Investment securities at amortised cost**	**Total**
As at 31 December 2019	**HK$'000**	**HK$'000**	**HK$'000**
AAA / Aaa	**-**	**527,608**	**527,608**
AA- to AA+ / Aa3 to Aa1	**2,797,417**	**2,375,913**	**5,173,330**
A- to A+ / A3 to A1	**2,122,985**	**8,898,533**	**11,021,518**
Unrated[#]	**-**	**233,907**	**233,907**
Total	**4,920,402**	**12,035,961**	**16,956,363**

The unrated investment security at amortised cost referred to a debt securities where all of the credit ratings were withdrawn by the credit rating agencies close to the year-end of 2019 for commercial reasons. Since the debt securities was no longer fulfilled the minimum credit rating requirements under the investment guidelines, the Group had orderly disposed the debt securities by January 2020 without incurrence of loss.

As at 31 December 2018	Investment securities at FVOCI HK$'000	Investment securities at amortised cost HK$'000	Total HK$'000
AAA / Aaa	30,105	711,904	742,009
AA- to AA+ / Aa3 to Aa1	3,069,211	2,826,744	5,895,955
A- to A+ / A3 to A1	1,992,348	8,009,627	10,001,975
Total	5,091,664	11,548,275	16,639,939

The following table contains an analysis of the credit risk exposure of investment securities for which impairment allowance is recognised.

As at 31 December 2019	**Stage 1 HK$'000**	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
Gross carrying amount				
- FVOCI	**4,920,402**	-	-	**4,920,402**
- amortised cost	**12,035,961**	-	-	**12,035,961**
Impairment allowance				
- amortised cost	**(1,455)**	-	-	**(1,455)**
Carrying amount				
- FVOCI	**4,920,402**	-	-	**4,920,402**
- amortised cost	**12,034,506**	-	-	**12,034,506**
	16,954,908	-	-	**16,954,908**

As at 31 December 2018	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross carrying amount				
- FVOCI	5,091,664	-	-	5,091,664
- amortised cost	11,548,275	-	-	11,548,275
Impairment allowance				
- amortised cost	(1,442)	-	-	(1,442)
Carrying amount				
- FVOCI	5,091,664	-	-	5,091,664
- amortised cost	11,546,833	-	-	11,546,833
	16,638,497	-	-	16,638,497

The impairment allowance for investment securities as at 31 December 2019 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 2018				
- FVOCI	506	-	-	506
- amortised cost	1,245	-	-	1,245
Change in the impairment allowance recognised in profit or loss during the period				
- FVOCI	14	-	-	14
- amortised cost	197	-	-	197
Impairment allowance as at 31 December 2018				
- FVOCI	520	-	-	520
- amortised cost (Note 18(c))	1,442	-	-	1,442
Change in the impairment allowance recognised in profit or loss during the period				
- FVOCI	**(46)**	**-**	**-**	**(46)**
- amortised cost	**13**	**-**	**-**	**13**
Impairment allowance as at 31 December 2019				
- **FVOCI**	**474**	**-**	**-**	**474**
- **Amortised cost (Note 18(c))**	**1,455**	**-**	**-**	**1,455**

(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 2019 reconciles to the opening impairment allowance as follows:

	HK$'000
Impairment allowance as at 1 January 2018	1,245
Change in the impairment allowance recognised in profit or loss during the period	197
Impairment allowance as at 31 December 2018 (Note 18(c))	1,442
Change in the impairment allowance recognised in profit or loss during the period (Note 12)	**13**
Impairment allowance as at 31 December 2019 (Note 18(c))	**1,455**

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.

All of these investment securities carried at amortised cost are considered no significant increase in credit risk as at 31 December 2019, and thus the impairment allowance recognised during the year ended 31 December 2019 was limited to 12-months ECLs.

(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 2019 reconciles to the opening impairment allowance as follows:

	HK$'000
Impairment allowance as at 1 January 2018	506
Change in the impairment allowance recognised in profit or loss during the period	14
Impairment allowance recognised in OCI as at 31 December 2018	520
Change in the impairment allowance recognised in profit or loss during the period (Note 12)	**(46)**
Impairment allowance recognised in OCI as at 31 December 2019	**474**

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.

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 during the period was limited to 12-month ECLs.

(d) 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:

	2019	2018
	HK$'000	HK$'000
Total risk-in-force		
- mortgage insurance business	**27,884,364**	23,736,830
- other guarantee and insurance business	**12,510,343**	9,644,703
	40,394,707	33,381,533

(e) Impaired loans

	2019	2018
	HK$'000	HK$'000
Gross impaired loan portfolio	**775**	468

	2019	2018
	HK$'000	HK$'000
Allowance for loan impairment in respect of such advances – stage 3	**(775)**	(468)
	-	-

There was no collateral held for impaired loans of the Group as at 31 December 2019 and 31 December 2018.

(f) Repossessed properties

The Group obtained assets by taking possession of collateral held as security.

Repossessed 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 2019 would increase the future net interest income for the next twelve months by around HK$2 million (2018: HK$1 million decrease) and decrease by around HK$2 million (2018: HK$1 million increase) for a similar upward parallel shift.

As at 31 December 2019, 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$9 million (2018: HK$1 million lower) and the fair value reserve would have been higher by around HK$10 million (2018: HK$4 million) as at 31 December 2019. If interest rates had experienced a 20 basis points parallel shift upwards, profit for the year would have been lower by HK$8 million (2018: HK$1 million higher) and the fair value reserve would have been lower by around HK$10 million (2018: HK$4 million).

As at 31 December 2019, 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$14 million higher (2018: HK$20 million). Conversely, if the Hong Kong dollars had strengthened by 100 price interest points against the US dollars, profit for the year would have been around HK$14 million lower (2018: HK$20 million).

As at 31 December 2019, 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 less than HK$0.1 million (2018: HK$1 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 less than HK$0.1 million (2018: HK$1 million).

As at 31 December 2019, 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$4 million lower (2018: HK$5 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$4 million higher (2018: HK$5 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.

(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.

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	USD	Other foreign currencies	Total
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
As at 31 December 2019				
Assets				
Cash and short-term funds	**27,618,157**	**280,179**	**9,848**	**27,908,184**
Interest and remittance receivables	**309,931**	**118,975**	**89,785**	**518,691**
Derivative financial instruments	**200,702**	**-**	**-**	**200,702**
Loan portfolio, net	**5,111,696**	**145,388**	**1,670,961**	**6,928,045**
Investment securities:				
- FVOCI	**1,404,577**	**3,515,825**	**-**	**4,920,402**
- FVPL	**369,511**	**9,292**	**-**	**378,803**
- amortised cost	**1,989,350**	**10,045,156**	**-**	**12,034,506**
Placements with the Exchange Fund	**12,881,627**	**-**	**-**	**12,881,627**
Prepayments, deposits and other assets	**263,063**	**72,974**	**1,001,312**	**1,337,349**
Deferred tax assets	**79,170**	**-**	**-**	**79,170**
Reinsurance assets	**208,991**	**-**	**-**	**208,991**
Fixed assets	**109,864**	**-**	**-**	**109,864**
Total assets	**50,546,639**	**14,187,789**	**2,771,906**	**67,506,334**
Liabilities				
Interest payable	**281,561**	**19,740**	**71,573**	**372,874**
Accounts payable, accrued expenses and other liabilities	**5,087,577**	**172,606**	**1,034**	**5,261,217**
Derivative financial instruments	**299,935**	**-**	**-**	**299,935**
Current tax liabilities	**123,115**	**-**	**-**	**123,115**
Insurance liabilities	**6,501,639**	**-**	**-**	**6,501,639**
Debt securities issued	**28,571,799**	**5,962,048***	**5,177,116****	**39,710,963**
Total liabilities	**40,865,626**	**6,154,394**	**5,249,723**	**52,269,743**
Net position	**9,681,013**	**8,033,395**	**(2,477,817)**	**15,236,591**
Off-balance sheet net notional position #	**(5,655,092)**	**2,962,691**	**2,332,734**	**(359,667)**

\# "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.

* Fully hedged into Hong Kong dollars.

** Amounts included debt securities issued in Australian dollars of HK$1.5 billion and renminbi of HK$3.6 billion, fully hedged into Hong Kong dollars.

	HKD	USD	Other foreign currencies	Total
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2018				
Assets				
Cash and short-term funds	28,807,046	510,753	73,056	29,390,855
Interest and remittance receivables	281,881	111,117	44,921	437,919
Derivative financial instruments	140,193	4,348	16,506	161,047
Loan portfolio, net	6,442,064	-	-	6,442,064
Investment securities:				
- FVOCI	1,253,359	3,838,305	-	5,091,664
- FVPL	534,843	8,769	-	543,612
- amortised cost	2,808,433	8,738,400	-	11,546,833
Placements with the Exchange Fund	7,734,934	-	-	7,734,934
Prepayments, deposits and other assets	689,045	140,351	95	829,491
Deferred tax assets	77,866	-	-	77,866
Reinsurance assets	171,518	-	-	171,518
Fixed assets	53,766	-	-	53,766
Total assets	48,994,948	13,352,043	134,578	62,481,569
Liabilities				
Interest payable	217,962	10,744	28,762	257,468
Accounts payable, accrued expenses and other liabilities	4,918,523	143,156	-	5,061,679
Derivative financial instruments	78,739	2,791	182,856	264,386
Current tax liabilities	104,077	-	-	104,077
Insurance liabilities	4,607,373	-	-	4,607,373
Debt securities issued	28,199,186	5,996,683*	3,097,008**	37,292,877
Total liabilities	38,125,860	6,153,374	3,308,626	47,587,860
Net position	10,869,088	7,198,669	(3,174,048)	14,893,709
Off-balance sheet net notional position #	(11,770,471)	8,532,367	2,982,048	(256,056)

"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.

* Fully hedged into Hong Kong dollars.

** Amounts included debt securities issued in Australian dollars of HK$1.5 billion and renminbi of HK$1.5 billion, fully hedged into Hong Kong dollars.

(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.

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 2019							
Assets							
Cash and short-term funds	**7,392,061**	**19,205,213**	**1,235,938**	**-**	**-**	**74,972**	**27,908,184**
Interest and remittance receivables	**-**	**-**	**-**	**-**	**-**	**518,691**	**518,691**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**200,702**	**200,702**
Loan portfolio, net	**6,390,510**	**491,030**	**3,769**	**11,116**	**31,620**	**-**	**6,928,045**
Investment securities:							
- FVOCI	**-**	**2,785,328**	**1,126,045**	**705,725**	**303,304**	**-**	**4,920,402**
- FVPL	**-**	**-**	**-**	**-**	**-**	**378,803**	**378,803**
- amortised cost	**-**	**1,575,045**	**1,224,151**	**4,122,643**	**5,112,667**	**-**	**12,034,506**
Placements with the Exchange Fund	**-**	**-**	**-**	**-**	**-**	**12,881,627**	**12,881,627**
Prepayments, deposits and other assets	**72,853**	**-**	**-**	**-**	**-**	**1,264,496**	**1,337,349**
Deferred tax assets	**-**	**-**	**-**	**-**	**-**	**79,170**	**79,170**
Reinsurance assets	**-**	**-**	**-**	**-**	**-**	**208,991**	**208,991**
Fixed assets	**-**	**-**	**-**	**-**	**-**	**109,864**	**109,864**
Total assets	**13,855,424**	**24,056,616**	**3,589,903**	**4,839,484**	**5,447,591**	**15,717,316**	**67,506,334**
Liabilities							
Interest payable	**-**	**-**	**-**	**-**	**-**	**372,874**	**372,874**
Accounts payable, accrued expenses and other liabilities	**5,036,339**	**-**	**-**	**-**	**-**	**224,878**	**5,261,217**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**299,935**	**299,935**
Current tax liabilities	**-**	**-**	**-**	**-**	**-**	**123,115**	**123,115**
Insurance liabilities	**-**	**-**	**-**	**-**	**-**	**6,501,639**	**6,501,639**
Debt securities issued	**3,068,218**	**12,156,149**	**12,028,149**	**7,589,274**	**4,869,173**	**-**	**39,710,963**
Total liabilities	**8,104,557**	**12,156,149**	**12,028,149**	**7,589,274**	**4,869,173**	**7,522,441**	**52,269,743**
Total interest sensitivity gap*	**5,750,867**	**11,900,467**	**(8,438,246)**	**(2,749,790)**	**578,418**		
Interest rate derivatives (notional amounts of net position)	**(391,432)**	**(4,870,641)**	**4,228,957**	**302,553**	**370,896**		

* before the repricing effect of derivative financial instruments on the debt securities issued.

	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 2018							
Assets							
Cash and short-term funds	9,187,118	18,714,302	1,279,899	-	-	209,536	29,390,855
Interest and remittance receivables	-	-	-	-	-	437,919	437,919
Derivative financial instruments	-	-	-	-	-	161,047	161,047
Loan portfolio, net	6,400,321	22,248	7,012	10,934	1,549	-	6,442,064
Investment securities:							
- FVOCI	851,591	3,239,436	497,458	503,179	-	-	5,091,664
- FVPL	-	-	-	-	-	543,612	543,612
- amortised cost	-	1,309,923	1,335,738	4,317,726	4,583,446	-	11,546,833
Placements with the Exchange Fund	-	-	-	-	-	7,734,934	7,734,934
Prepayments, deposits and other assets	137,483	-	-	-	-	692,008	829,491
Deferred tax assets	-	-	-	-	-	77,866	77,866
Reinsurance assets	-	-	-	-	-	171,518	171,518
Fixed assets	-	-	-	-	-	53,766	53,766
Total assets	16,576,513	23,285,909	3,120,107	4,831,839	4,584,995	10,082,206	62,481,569
Liabilities							
Interest payable	-	-	-	-	-	257,468	257,468
Accounts payable, accrued expenses and other liabilities	4,902,866	-	-	-	-	158,813	5,061,679
Derivative financial instruments	-	-	-	-	-	264,386	264,386
Current tax liabilities	-	-	-	-	-	104,077	104,077
Insurance liabilities	-	-	-	-	-	4,607,373	4,607,373
Debt securities issued	5,631,318	11,495,125	8,082,087	8,468,836	3,615,511	-	37,292,877
Total liabilities	10,534,184	11,495,125	8,082,087	8,468,836	3,615,511	5,392,117	47,587,860
Total interest sensitivity gap*	6,042,329	11,790,784	(4,961,980)	(3,636,997)	969,484		
Interest rate derivatives (notional amounts of net position)	(567,144)	(6,033,612)	3,810,990	1,293,541	1,240,169		

* 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.

(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 2019						
Liabilities						
Accounts payable, accrued expenses and other liabilities						
- lease liabilities	**(4,433)**	**(8,866)**	**(31,638)**	**(1,376)**	**-**	**(46,313)**
Debt securities issued	**388,298**	**(4,614,056)**	**(16,999,131)**	**(14,392,096)**	**(6,603,357)**	**(42,220,342)**
	383,865	**(4,622,922)**	**(17,030,769)**	**(14,393,472)**	**(6,603,357)**	**(42,266,655)**

	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 2018						
Liabilities						
Debt securities issued	(2,179,266)	(6,272,341)	(11,778,059)	(14,558,938)	(4,517,697)	(39,306,301)

(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 2019						
Derivative financial instrument settled:						
- on net basis	**(14,288)**	**(4,715)**	**54,277**	**22,254**	**(19,429)**	**38,099**
- on gross basis						
Total outflow	**(1,017,671)**	**(1,083,086)**	**(7,315,595)**	**(7,111,644)**	**(1,302,501)**	**(17,830,497)**
Total inflow	**1,017,756**	**1,060,879**	**7,279,611**	**7,090,225**	**1,270,811**	**17,719,282**
	(14,203)	**(26,922)**	**18,293**	**835**	**(51,119)**	**(73,116)**

	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 2018						
Derivative financial instrument settled:						
- on net basis	(6,129)	17,655	29	14,587	(29,246)	(3,104)
- on gross basis						
Total outflow	(785,440)	(1,808,855)	(6,528,845)	(1,512,233)	(1,503,110)	(12,138,483)
Total inflow	782,570	1,801,737	6,574,167	1,571,487	1,328,637	12,058,598
	(8,999)	10,537	45,351	73,841	(203,719)	(82,989)

(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	**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 2019								
Assets								
Cash and short-term funds (gross)	**74,244**	**7,392,939**	**19,206,000**	**1,236,000**	**-**	**-**	**-**	**27,909,183**
Loan portfolio	**1,081**	**48,631**	**109,831**	**465,280**	**2,829,037**	**3,432,242**	**43,531**	**6,929,633**
Investment securities								
- FVOCI	**-**	**-**	**455,954**	**685,001**	**3,476,143**	**303,304**	**-**	**4,920,402**
- FVPL	**-**	**-**	**-**	**-**	**-**	**-**	**378,803**	**378,803**
- amortised cost (gross)	**-**	**-**	**569,967**	**2,229,362**	**4,123,244**	**5,113,388**	**-**	**12,035,961**
Placements with the Exchange Fund	**-**	**-**	**-**	**-**	**-**	**12,881,627**	**-**	**12,881,627**
Reinsurance assets	**-**	**-**	**-**	**-**	**-**	**-**	**208,991**	**208,991**
	75,325	**7,441,570**	**20,341,752**	**4,615,643**	**10,428,424**	**21,730,561**	**631,325**	**65,264,600**
Liabilities								
Insurance liabilities	**-**	**32,808**	**63,140**	**276,808**	**1,288,506**	**3,366,221**	**1,474,156**	**6,501,639**
Debt securities issued	**-**	**526,886**	**4,393,081**	**16,463,199**	**13,458,624**	**4,869,173**	**-**	**39,710,963**
	-	**559,694**	**4,456,221**	**16,740,007**	**14,747,130**	**8,235,394**	**1,474,156**	**46,212,602**

	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 2018								
Assets								
Cash and short-term funds (gross)	196,590	9,200,211	18,715,000	1,280,000	-	-	-	29,391,801
Loan portfolio	2,195	44,596	123,539	460,888	2,109,440	3,694,490	7,582	6,442,730
Investment securities								
- FVOCI	-	27,780	191,143	1,627,876	3,244,865	-	-	5,091,664
- FVPL	-	-	-	-	-	-	543,612	543,612
- amortised cost (gross)	-	-	300,000	1,335,810	5,328,313	4,584,152	-	11,548,275
Placements with the Exchange Fund	-	-	-	-	-	7,734,934	-	7,734,934
Reinsurance assets	-	-	-	-	-	-	171,518	171,518
	198,785	9,272,587	19,329,682	4,704,574	10,682,618	16,013,576	722,712	60,924,534
Liabilities								
Insurance liabilities	-	20,357	40,386	176,995	824,770	2,222,021	1,322,844	4,607,373
Debt securities issued	-	2,592,186	6,110,063	11,307,930	13,667,187	3,615,511	-	37,292,877
	-	2,612,543	6,150,449	11,484,925	14,491,957	5,837,532	1,322,844	41,900,250

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$30 billion revolving credit under the Revolving Credit Facility, 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 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 and non-listed enterprises 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 and therefore unpredictable.

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.

As at 31 December 2019, if the combined ratio of general insurance business had increased by 1%, profit for the year would have been HK$3 million (2018: HK$3 million) lower. If combined ratio had decreased by 1%, profit for the year would have been HK$3 million (2018: HK$3 million) higher.

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 2019	**Amount change from insurance liabilities**	**Percentage change from insurance liabilities**
	HK$'000	**%**
	Increase / (decrease)	**Increase / (decrease)**
Mortality		
+ 10%	**(73,941)**	**(1.5)**
- 10%	**83,111**	**1.7**
Valuation interest rate		
+ 0.5%	**(201,611)**	**(4.0)**
- 0.5%	**217,740**	**4.3**

As at 31 December 2018	Amount change from insurance liabilities	Percentage change from insurance liabilities
	HK$'000	%
	Increase / (decrease)	Increase / (decrease)
Mortality		
+ 10%	(45,692)	(1.4)
- 10%	51,432	1.6
Valuation interest rate		
+ 0.5%	(132,321)	(4.0)
- 0.5%	143,042	4.4

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 2019				As at 31 December 2018			
	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	**-**	**200,702**	**-**	**200,702**	-	161,047	-	161,047
Investment securities								
- FVOCI	**4,920,402**	**-**	**-**	**4,920,402**	5,091,664	-	-	5,091,664
- FVPL	**378,803**	**-**	**-**	**378,803**	543,612	-	-	543,612
Placements with the Exchange Fund	**-**	**-**	**12,881,627**	**12,881,627**	-	-	7,734,934	7,734,934
	5,299,205	**200,702**	**12,881,627**	**18,381,534**	5,635,276	161,047	7,734,934	13,531,257

	As at 31 December 2019				As at 31 December 2018			
	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
Liabilities								
Derivative financial instruments	**-**	**299,935**	**-**	**299,935**	-	264,386	-	264,386
Debt securities issued designated as at fair value through profit or loss	**-**	**147,184**	**-**	**147,184**	-	143,981	-	143,981
	-	**447,119**	**-**	**447,119**	-	408,367	-	408,367

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 estimated rates of investment return for future years, approximate the carrying value.

Movement in Level 3 fair value measurement as follows:

	2019	2018
	HK$'000	HK$'000
As at 1 January	**7,734,934**	-
Placements with the Exchange Fund	**4,682,000**	7,550,000
Income from placements with the Exchange Fund recognised in profit or loss (Note 9)	**464,693**	184,934
As at 31 December	**12,881,627**	7,734,934

(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 2019 and 31 December 2018 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 2019				As at 31 December 2018			
	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	**12,034,506**	**12,517,183**	**12,517,183**	**-**	11,546,833	11,530,161	11,530,161	-
Financial liabilities								
Debt securities issued	**39,563,779**	**40,046,257**	**-**	**40,046,257**	37,148,896	36,588,554	-	36,588,554

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) 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.

(iii) 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.

(iv) Other assets

These mainly represent receivables from debt securities issued for settlement after the reporting date with the fair value approximating the carrying amount.

(v) 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.

(vi) Other liabilities

These mainly represent 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.

(vii) 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;
- 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, which is made by reference to the Banking (Capital) Rules (**BCR**), the calculation basis of capital ratio under the BCR 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 under the BCR. 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.

	2019	2018
	HK$'000	HK$'000
Share capital	**7,000,000**	7,000,000
Reserves	**8,460,636**	8,150,766
Impairment allowance	**4,344**	3,290
Deductions:		
- Investment in regulated subsidiaries	**(8,000,000)**	(8,000,000)
- Other deductions	**-**	(2,971)
Total capital base	**7,464,980**	7,151,085
Capital Adequacy Ratio	**30.2%**	26.8%

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.

	As at 31 December 2019				As at 31 December 2018			
	Carrying amounts on the consolidated statement of financial position	**Related amount not set off in the consolidated statement of financial position#**			Carrying amounts on the consolidated statement of financial position	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	HK$'000	HK$'000
Financial assets								
Positive fair values for derivative financial instruments	**200,702**	**(175,078)**	**(22,765)**	**2,859**	161,047	(98,859)	(58,154)	4,034
Financial liabilities								
Negative fair values for derivative financial instruments	**299,935**	**(175,078)**	**(68,101)**	**56,756**	264,386	(98,859)	(137,483)	28,044

\# 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. 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 2019 is disclosed in Note 17.

4.2. 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 2019 is disclosed in Note 25.

4.3. 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 2019 is disclosed in Note 25.

4.4. Determination of the lease term

In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

4.5. Recognition of deferred tax asset for carried-forward tax losses

The deferred tax assets mainly relates to tax losses of the annuity business arising from maintaining prudent statutory reserves based on actuarial assumptions. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the business plans. The annuity business is expected to generate taxable income in the future. The losses can be carried forward indefinitely and have no expiry date.

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.

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 2019					
Net interest income	**446,493**	**78,069**	**(571)**	**-**	**523,991**
Net insurance business results	**-**	**215,189**	**(387,458)**	**-**	**(172,269)**
Other income	**181,229**	**58,426**	**406,869**	**(181,127)**	**465,397**
Operating income	**627,722**	**351,684**	**18,840**	**(181,127)**	**817,119**
Operating expenses	**(325,179)**	**(189,259)**	**(146,340)**	**181,127**	**(479,651)**
Operating profit before impairment	**302,543**	**162,425**	**(127,500)**	**-**	**337,468**
(Charge) / write-back of impairment allowances	**(1,047)**	**111**	**2**	**-**	**(934)**
Profit before taxation	**301,496**	**162,536**	**(127,498)**	**-**	**336,534**

	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 2018					
Net interest income	438,904	95,264	2,041	-	536,209
Net insurance business results	-	243,509	(549,885)	-	(306,376)
Other income	162,269	34	184,952	(97,622)	249,633
Operating income	601,173	338,807	(362,892)	(97,622)	479,466
Operating expenses	(240,840)	(166,087)	(103,083)	97,622	(412,388)
Operating profit before impairment	360,333	172,720	(465,975)	-	67,078
Write back/ (charge) of impairment allowances	153	(280)	(7)	-	(134)
Profit before taxation	360,486	172,440	(465,982)	-	66,944

	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 2019					
Segment assets	**52,762,384**	**6,962,673**	**10,012,074**	**(2,230,797)**	**67,506,334**
Segment liabilities	**45,287,877**	**3,674,381**	**5,538,282**	**(2,230,797)**	**52,269,743**

	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 2018					
Segment assets	49,699,136	5,008,698	8,008,883	(235,148)	62,481,569
Segment liabilities	42,550,765	1,863, 272	3,408,971	(235,148)	47,587,860

6. Interest income

	2019	2018
	HK$'000	HK$'000
Loan portfolio	**171,599**	162,583
Cash and short-term funds	**701,329**	557,744
Investment securities	**597,551**	509,383
	1,470,479	1,229,710

7. Interest expense

	2019	2018
	HK$'000	HK$'000
Bank loans and debt securities issued	**836,054**	607,367
Lease liabilities	**1,806**	-
Others	**108,628**	86,134
	946,488	693,501

Included within interest expenses are HK$944 million (2018: HK$691 million) for financial liabilities that are not at fair value through profit or loss.

8. Revenue account for insurance business

	2019			2018		
	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 25(a)(i))	**542,438**	**1,630,827**	**2,173,265**	634,757	2,780,240	3,414,997
Reinsurance premiums (Note 25(a)(i))	**(76,223)**	**-**	**(76,223)**	(69,018)	-	(69,018)
Net premiums written (Note 25(a)(i))	**466,215**	**1,630,827**	**2,097,042**	565,739	2,780,240	3,345,979
Movement in unearned premiums, net	**(109,392)**	**-**	**(109,392)**	(188,327)	-	(188,327)
Net premiums earned (Note 25(a)(i))	**356,823**	**1,630,827**	**1,987,650**	377,412	2,780,240	3,157,652
Net claims incurred, benefits paid and movement in policyholders' liabilities (Note 25(a)(ii) and Note 25(b)(i))	**(3,444)**	**(2,018,114)**	**(2,021,558)**	(3,392)	(3,317,645)	(3,321,037)
Net premiums earned after provisions	**353,379**	**(387,287)**	**(33,908)**	374,020	(537,405)	(163,385)

	2019			2018		
	General insurance	**Life insurance**	**Total**	General insurance	Life insurance	Total
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Commission expenses	**(163,487)**	**(52)**	**(163,539)**	(154,121)	(12,268)	(166,389)
Levy expenses	**-**	**(119)**	**(119)**	-	(212)	(212)
Reinsurers' share of commission expenses	**25,297**	**-**	**25,297**	23,610	-	23,610
Net commission and levy expenses	**(138,190)**	**(171)**	**(138,361)**	(130,511)	(12,480)	(142,991)
Net premiums earned after commission and levy expenses	**215,189**	**(387,458)**	**(172,269)**	243,509	(549,885)	(306,376)

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

	2019	2018
	HK$'000	HK$'000
Income from placements with the Exchange Fund	**464,693**	184,934
Early prepayment fees and late charges	**396**	384
Exchange difference	**(37,592)**	12,335
Net change in fair value of financial instruments	**(11,936)**	11,840
Net gain / (losses) on investments at fair value through profit or loss	**33,037**	(13,500)
Net gain on disposal of investments at FVOCI	**75**	-
Net gain on disposal of investments at amortised cost	**-**	192
Dividend income from listed investments	**20,019**	58,626
Others	**(3,295)**	(5,178)
	465,397	249,633

Change in fair value of financial instruments represented the aggregate of (i) HK$15 million fair value loss on hedging instruments designated as fair value hedge (2018: HK$324 million) and HK$14 million fair value gain on the hedged items (2018: HK$325 million); and (ii) HK$14 million fair value loss on derivatives not qualified as hedges for accounting purposes (2018: HK$7 million gain) and HK$3 million fair value gain on debt securities issued designated as at fair value through profit or loss (2018: HK$4 million).

10. Operating expenses

	2019	2018
	HK$'000	HK$'000
Staff costs:		
- Salaries and benefits	**272,804**	237,081
- Pension costs - defined contribution plans	**15,619**	13,576
Premises:		
- Rental (Note)	-	49,845
- Others	**10,284**	9,123
Directors' fees	-	-
Emoluments in respect of directors' other services in connection with the management of the affairs of the Company:		
- Salaries, allowances and bonus	**6,761**	6,367
- Retirement scheme contributions	**654**	633
Depreciation (Note 22)		
- right-of-use assets (Note)	**53,877**	-
- other fixed assets	**27,160**	19,371
Financial information services	**10,962**	8,259
Consultancy fees	**19,237**	17,248
Marketing and advertising expenses	**32,954**	21,294
Other operating expenses	**29,339**	29,591
	479,651	412,388

Note:
The Group has adopted HKFRS 16 and adjusted the opening balances as at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17 (Note 2.1(a)).

11. Auditor's remuneration

	2019	2018
	HK$'000	HK$'000
Auditor's remuneration:		
- Audit services	**3,552**	3,215
- Other services	**1,710**	1,349
	5,262	4,564

12. Charge of impairment allowances

	2019	2018
	HK$'000	HK$'000
Charge / (write-back) of loan impairment allowances:		
- Cash and short-term funds (Note 3.2(b))	**53**	(95)
- Investment securities		
- amortised cost (Note 3.2(c)(i))	**13**	197

	2019	2018
	HK$'000	HK$'000
- FVOCI (Note 3.2(c)(ii))	**(46)**	14
- Loan portfolio (Note 3.2(a))	**914**	18
	934	134

13. Taxation

(a) Taxation in the consolidated income statement represents:

	2019	2018
	HK$'000	HK$'000
Hong Kong profits tax		
- Current tax	**17,811**	17,987
- Adjustment in respect of prior years	**2,566**	(30)
	20,377	17,957
Deferred taxation		
- Credit for current period	**(1,304)**	(77,571)
	19,073	(59,614)

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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% (2018: 16.5%).

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2019	2018
	HK$'000	HK$'000
Profit before taxation	**336,534**	66,944
Calculated at a taxation rate of 16.5% (2018: 16.5%)	**55,528**	11,046
Tax effect of:		
- income not subject to taxation	**(181,027)**	(157,438)
- expenses not deductible for taxation purposes	**114,813**	86,808
- tax losses not recognised	**8,169**	-
- adjustment in respect of prior years	**2,566**	(30)
- other	**19,024**	-
Taxation charge / (credit)	**19,073**	(59,614)

(b) Provision for taxation in the statement of financial position represents:

	2019 **HK$'000**	2018 HK$'000
Deferred tax assets	**79,170**	77,866
Current tax liabilities	**123,115**	104,077

There was no significant unprovided deferred taxation as at 31 December 2019 and 31 December 2018.

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 2018	3,366	(3,661)	-	(295)
Charged / (credited) to income statement	603	(964)	(77,210)	(77,571)
As at 31 December 2018	3,969	(4,625)	(77,210)	(77,866)
Charged / (credited) to income statement	**4,240**	**(107)**	**(5,437)**	**(1,304)**
As at 31 December 2019	**8,209**	**(4,732)**	**(82,647)**	**(79,170)**

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

	2019 **HK$'000**	2018 HK$'000
Cash at banks	**74,244**	196,590
Time deposits with banks	**27,834,939**	29,195,211
Gross cash and short-term funds	**27,909,183**	29,391,801
Impairment allowance on cash and short-term funds (Note 3.2 (b))	**(999)**	(946)
	27,908,184	29,390,855

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of transaction.

	2019	2018
	HK$'000	HK$'000
Cash at banks	**74,244**	196,590
Time deposits with banks	**11,882,939**	14,581,211
Cash and cash equivalents	**11,957,183**	14,777,801

15. Interest and remittance receivables

	2019	2018
	HK$'000	HK$'000
Interest receivable from:		
- interest rate swap contracts	**254,305**	161,582
- investment securities	**140,873**	135,392
- time deposits with banks	**90,816**	99,291
Interest receivable and instalments, in transit from loan portfolio	**32,697**	41,654
	518,691	437,919

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.

	2019			2018		
	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
(i) Derivatives not qualified as hedges for accounting purposes						
Interest rate swaps	**2,977,834**	**5,008**	**(4,112)**	3,023,290	11,041	(77)
Currency swaps	**1,842,627**	**15,801**	**(20,141)**	-	-	-
Currency forwards	**19,554**	**167**	**-**	3,315,395	700	(565)
		20,976	**(24,253)**		11,741	(642)
(ii) Fair value hedge derivatives						
Interest rate swaps	**18,040,000**	**133,215**	**(53,980)**	14,246,974	129,153	(78,663)
Currency swaps	**14,173,651**	**46,511**	**(221,702)**	8,455,076	20,153	(185,081)
		179,726	**(275,682)**		149,306	(263,744)
Total recognised derivative assets/(liabilities)		**200,702**	**(299,935)**		161,047	(264,386)

(b) Hedging activities

Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow 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. There were no derivatives designated as cash flow hedges as at 31 December 2019 and 31 December 2018.

17. Loan portfolio, net

(a) Loan portfolio less allowance

	2019	2018
	HK$'000	HK$'000
Residential mortgage portfolio	**4,910,217**	6,179,353
Non-mortgage portfolio		
Infrastructure loans	**1,817,052**	-
Finance lease receivables and others	**202,364**	263,377
	6,929,633	6,442,730
Allowance for loan impairment (Note 3.2(a))	**(1,588)**	(666)
	6,928,045	6,442,064

Total allowance for loan impairment as a percentage of the outstanding principal balances of the loan portfolio is as follows:

	2019	2018
Total allowance for loan impairment as a percentage of the gross loan portfolio	**0.023%**	0.010%

Allowance for loan impairment has been made after taking into account the current market value of the collateral.

	2019	2018
Gross impaired loan portfolio as a percentage of gross loan portfolio	**0.011%**	0.007%

(b) Net investments in finance leases included in loan portfolio

	2019		
	Present value of minimum lease payments receivable	**Interest income relating to future periods**	**Total minimum lease payments receivable**
	HK$'000	**HK$'000**	**HK$'000**
Amounts receivable:			
- within one year	**21,004**	**3,829**	**24,833**
- after one year but within five years	**67,048**	**11,504**	**78,552**
- after five years	**104,977**	**11,238**	**116,215**
	193,029	**26,571**	**219,600**

	2018		
	Present value of minimum lease payments receivable	Interest income relating to future periods	Total minimum lease payments receivable
	HK$'000	HK$'000	HK$'000
Amounts receivable:			
- within one year	25,533	5,341	30,874
- after one year but within five years	85,546	16,329	101,875
- after five years	142,565	17,318	159,883
	253,644	38,988	292,632

No allowance for loan impairment has been provided for finance lease receivable.

18. Investment securities

(a) Investment securities at FVOCI

	2019	2018
	HK$'000	HK$'000
Debt securities at fair value		
Listed in Hong Kong	**1,101,818**	587,702
Listed outside Hong Kong	**2,011,352**	2,128,745
Unlisted	**1,807,232**	2,375,217
Total FVOCI securities	**4,920,402**	5,091,664

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:

	2019	2018
	HK$'000	HK$'000
Banks and other financial institutions	**3,941,969**	4,266,072
Corporate entities	**822,285**	795,487
Public sector entities	**-**	30,105
Central governments	**156,148**	-
	4,920,402	5,091,664

The movement in FVOCI securities is summarised as follows:

	2019	2018
	HK$'000	HK$'000
As at 1 January	**5,091,664**	5,480,912
Additions	**1,679,612**	1,307,246
Sale and redemption	**(1,846,295)**	(1,693,196)
Amortisation	**(645)**	(2,534)
Change in fair value	**13,610**	(7,182)
Exchange difference	**(17,544)**	6,418
As at 31 December	**4,920,402**	5,091,664

Information on the impairment, credit quality and the Group's exposure to credit risk are disclosed in Note 3.2(c).

(b) Investment securities at FVPL

	2019	2018
	HK$'000	HK$'000
Exchange-traded funds and real estate investment funds at fair value		
Listed in Hong Kong	**378,803**	543,612
Total FVPL securities	**378,803**	543,612

The Group classifies other investment securities in exchange-traded funds and real estate investments trusts at FVPL, which do not quality for measurement at either amortised cost or FVOCI.

The movement in FVPL securities is summarised as follows:

	2019	2018
	HK$'000	HK$'000
As at 1 January	**543,612**	1,657,750
Additions	**-**	16,644
Sale	**(193,052)**	(1,096,226)
Change in fair value	**28,288**	(35,278)
Exchange difference	**(45)**	722
As at 31 December	**378,803**	543,612

(c) Investment securities at amortised cost

	2019	2018
	HK$'000	HK$'000
Debt securities at amortised cost		
Listed in Hong Kong	**7,270,898**	6,317,348
Listed outside Hong Kong	**2,193,184**	2,106,090
	9,464,082	8,423,438
Unlisted	**2,571,879**	3,124,837
Gross investment securities at amortised cost	**12,035,961**	11,548,275
Impairment allowance on investment securities at amortised cost (Note 3.2(c)(i))	**(1,455)**	(1,442)
Total amortised costs securities	**12,034,506**	11,546,833

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.

Amortised cost securities are analysed by categories of issuers as follows:

	2019	2018
	HK$'000	HK$'000
Banks and other financial institutions	**4,064,177**	5,075,984
Corporate entities	**6,270,963**	4,904,367
Public sector entities	**358,587**	540,768
Central governments	**1,342,234**	1,027,156
	12,035,961	11,548,275

The movement in amortised cost securities is summarised as follows:

	2019	2018
	HK$'000	HK$'000
As at 1 January	**11,548,275**	10,347,834
Additions	**2,176,283**	1,855,361
Sales and redemption	**(1,631,368)**	(653,843)
Amortisation	**(5,492)**	(11,141)
Exchange difference	**(51,737)**	10,064
As at 31 December	**12,035,961**	11,548,275

19. 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 2019, the balance of the placements with the Exchange Fund amounted to HK$12.9 billion (2018: HK$7.7 billion), comprising a total principal sum of HK$12.2 billion (2018: HK$7.6 billion) plus income earned and accrued but not yet withdrawn as at the reporting date.

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.

20. Interests in subsidiaries

Details of the subsidiaries of the Company as at 31 December 2019 are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued and fully paid up share capital (Class of shares)	Percentage of shares held by the Company (or its nominee)	Percentage of shares held by the Company's subsidiary (or its nominee)
HKMC Mortgage Management Limited	Hong Kong	Mortgage purchase and servicing, funding of microfinance loans, and origination of reverse mortgage loans	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

Name	Place of incorporation	Principal activities	Particulars of issued and fully paid up share capital (Class of shares)	Percentage of shares held by the Company (or its nominee)	Percentage of shares held by the Company's subsidiary (or its nominee)
HKMC Annuity Limited	Hong Kong	Long term insurance business	HK$5,000,000,000 (Ordinary)	100%	N/A
HKMC Funding Corporation (1) Limited*	Hong Kong	No business activity	HK$1,000 (Ordinary)	N/A	N/A
Bauhinia MBS Limited*	Cayman Islands	No business activity	US$1,000 (Ordinary)	N/A	N/A
HKMC Credit & Guarantee Corporation Limited	Hong Kong	Dormant	HK$1 (Ordinary)	N/A	100%
Hong Kong Mortgage Credit & Guarantee Corporation Limited	Hong Kong	Dormant	HK$1 (Ordinary)	N/A	100%
HKMC Premier Solutions Limited^	Hong Kong	Provision of marketing and business development services	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 programme guaranteed by the Company.

^ The company was incorporated in April 2019.

21. Prepayments, deposits and other assets

	2019	2018
	HK$'000	HK$'000
Corporate club debentures	**830**	750
CSA receivable	**72,853**	137,483
Receivables from securities issued for settlement after the reporting date	**1,002,223**	488,021
Other receivable	**227,891**	172,306
Other assets	**33,552**	30,931

	2019	2018
	HK$'000	HK$'000
	1,337,349	829,491

22. 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**
Net book amount as at 1 January 2018	-	11,553	882	21,776	118	34,329
Additions	-	7,961	4,228	26,619	-	38,808
Depreciation charge	-	(5,579)	(1,074)	(12,630)	(88)	(19,371)
Net book amount as at 31 December 2018	-	13,935	4,036	35,765	30	53,766
Changes on adoption of HKFRS 16	105,090	(5,782)	-	-	-	99,308
Net book amount as at January 2019	105,090	8,153	4,036	35,765	30	153,074
Additions	-	**6,508**	**1,484**	**30,345**	-	**38,337**
Written off	-	**(362)**	**(148)**	-	-	**(510)**
Depreciation charge (Note 10)	**(53,877)**	**(4,898)**	**(1,693)**	**(20,539)**	**(30)**	**(81,037)**
Net book amount as at 31 December 2019	**51,213**	**9,401**	**3,679**	**45,571**	**-**	**109,864**
As at 31 December 2019						
Cost	**105,090**	**44,818**	**14,014**	**248,700**	**775**	**413,397**
Accumulated depreciation	**(53,877)**	**(35,417)**	**(10,335)**	**(203,129)**	**(775)**	**(303,533)**
Net book amount	**51,213**	**9,401**	**3,679**	**45,571**	**-**	**109,864**
As at 31 December 2018						
Cost	-	47,755	12,759	218,355	775	279,644
Accumulated depreciation	-	(33,820)	(8,723)	(182,590)	(745)	(225,878)
Net book amount	-	13,935	4,036	35,765	30	53,766

23. Interest payable

	2019	2018
	HK$'000	HK$'000
Interest payable from:		
- debt securities issued	**320,288**	229,577
- interest rate swap contracts	**44,345**	20,088
- other liabilities	**8,241**	7,803

	2019	2018
	HK$'000	HK$'000
	372,874	257,468

24. Accounts payable, accrued expenses and other liabilities

	2019	2018
	HK$'000	HK$'000
Accounts payable and accrued expenses	**291,494**	248,121
Other liabilities	**4,866,088**	4,762,799
Lease liabilities	**45,773**	-
Other provision	**57,862**	50,759
	5,261,217	5,061,679

Other liabilities represented the guarantee fee and fund received (net of claims and related expenses) of HK$379,717,000 (2018: HK$370,511,000) under the special concessionary measures of the SME Financing Guarantee Scheme (Note 31) and the deferred consideration of HK$4,486,371,000 (2018: HK$4,392,288,000) used for credit enhancement on the mortgage loans purchased from the Government in December 2003 and January 2004. The total cash outflow for leases in 2019 was HK$53,198,000.

25. Insurance liabilities and reinsurance assets

	2019			2018		
	Gross HK$'000	**Reinsurance HK$'000**	**Net HK$'000**	Gross HK$'000	Reinsurance HK$'000	Net HK$'000
General insurance:						
Provision for unearned premiums and guarantee fees	**1,435,165**	**201,784**	**1,233,381**	1,290,372	166,383	1,123,989
Provision for outstanding claims:						
- claims reported/ (recovery)	**1,895**	**389**	**1,506**	2,236	(1)	2,237
- claims incurred but not reported	**37,096**	**6,818**	**30,278**	30,236	5,136	25,100
	38,991	**7,207**	**31,784**	32,472	5,135	27,337
	1,474,156	**208,991**	**1,265,165**	1,322,844	171,518	1,151,326
Life insurance:						
Policyholders' liabilities	**5,027,483**	**-**	**5,027,483**	3,284,529	-	3,284,529
	6,501,639	**208,991**	**6,292,648**	4,607,373	171,518	4,435,855

(a) General insurance

(i) Analysis of movement in provision for unearned premiums and guarantee fees

	2019			2018		
	Gross HK$'000	**Reinsurance HK$'000**	**Net HK$'000**	Gross HK$'000	Reinsurance HK$'000	Net HK$'000
As at 1 January	**1,290,372**	**166,383**	**1,123,989**	1,095,805	160,143	935,662
Premiums written (Note 8)	**542,438**	**76,223**	**466,215**	634,757	69,018	565,739
Premiums earned (Note 8)	**(397,645)**	**(40,822)**	**(356,823)**	(440,190)	(62,778)	(377,412)
As at 31 December	**1,435,165**	**201,784**	**1,233,381**	1,290,372	166,383	1,123,989

(ii) Analysis of movement in provision for outstanding claims

	2019			2018		
	Gross HK$'000	**Reinsurance HK$'000**	**Net HK$'000**	Gross HK$'000	Reinsurance HK$'000	Net HK$'000
As at 1 January	**32,472**	**5,135**	**27,337**	34,345	4,458	29,887
Claims paid	**(2,446)**	**(698)**	**(1,748)**	(7,556)	-	(7,556)
Claims recovery	**3,044**	**293**	**2,751**	1,908	294	1,614
Claims incurred / (written back) (Note 8):						
- claims reported	**(939)**	**795**	**(1,734)**	749	(488)	1,237
- claims incurred but not reported	**6,860**	**1,682**	**5,178**	3,026	871	2,155
	5,921	**2,477**	**3,444**	3,775	383	3,392
As at 31 December	**38,991**	**7,207**	**31,784**	32,472	5,135	27,337

(b) Life insurance

(i) Analysis of movement in policyholders' liabilities

	2019			2018		
	Gross HK$'000	**Reinsurance HK$'000**	**Net HK$'000**	Gross HK$'000	Reinsurance HK$'000	Net HK$'000
As at 1 January	**3,284,529**	**-**	**3,284,529**	-	-	-
Claims and benefits paid	**(275,160)**	-	**(275,160)**	(33,116)	-	(33,116)
Claims incurred and movement in policyholders' liabilities (Note 8)	**2,018,114**	-	**2,018,114**	3,317,645	-	3,317,645
As at 31 December	**5,027,483**	-	**5,027,483**	3,284,529	-	3,284,529

(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 the Hong Kong Insurance Companies (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

HKA01 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 Companies (Determination of Long Term Liabilities) Rules of the Insurance Ordinance (i.e. no allowance is made for the voluntary discontinuance).

Renewal expense

The renewal expense assumption is based on internal experience study.

(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 Companies (Determination of Long Term Liabilities) Regulation and the actuarial guidance provided by the Actuarial Society of Hong Kong. The valuation interest rate is 4%.

26. Debt securities issued

	2019	2018
	HK$'000	HK$'000
Debt securities carried at amortised cost		
MTN	**10,308,191**	14,540,716
Total debt securities carried at amortised cost	**10,308,191**	14,540,716
Debt securities designated as hedged items under fair value hedge		
DIP notes	**1,733,270**	1,808,922
MTN	**27,522,318**	20,799,258
Total debt securities designated as hedged items under fair value hedge	**29,255,588**	22,608,180
Debt securities designated as at fair value through profit or loss		
DIP notes	**147,184**	143,981
Total debt securities designated as at fair value through profit or loss	**147,184**	143,981

	2019	2018
	HK$'000	HK$'000
Total debt securities issued	**39,710,963**	37,292,877

During the year, no debt securities (2018: nil) were designated on initial recognition as at fair value through profit or loss. The fair value changes are attributable to changes in benchmark interest rates for the debt securities designated as at fair value through profit or loss. The carrying amount of the financial liabilities designated as at fair value through profit or loss upon initial recognition is HK$36,816,000 (2018: HK$40,019,000) lower than the amount that the Group would be contractually required to pay at maturity to the note holders.

There were no significant gains or losses attributable to changes in the credit risk of the Group for those financial liabilities designated as at fair value.

The movement in debt securities issued is summarised as follows:

	2019	2018
	HK$'000	HK$'000
As at 1 January	**37,494,823**	34,706,897
Issuance	**31,890,989**	34,074,308
Less: Redemption	**(29,474,462)**	(31,289,536)
Exchange difference	**862**	3,154
Total nominal value	**39,912,212**	37,494,823
Unamortised portion of discount	**(74,974)**	(92,638)
Fair value adjustment	**(126,275)**	(109,308)
As at 31 December	**39,710,963**	37,292,877

Notes issued during the year comprise:

	MTN
	HK$'000
Amount issued at nominal value	**31,890,989**
Consideration received	**31,843,819**

All the debt securities issued are unsecured obligations of the Group, and are issued for the purposes of providing general working capital and refinancing.

27. Share capital

	2019	2018
	HK$'000	HK$'000
Issued and fully paid:		
2 billion ordinary shares	**7,000,000**	7,000,000

The movement in share capital is summarised as follows:

	2019	2018
	HK$'000	HK$'000
As at 1 January	**7,000,000**	2,000,000
Capital injection	**-**	5,000,000
As at 31 December	**7,000,000**	7,000,000

28. Material related party transactions

(a) The Company and its wholly-owned subsidiaries are owned by the Government for the account of the Exchange Fund (described before 1 October 2019 as Financial Secretary of Hong Kong as controller of the Exchange Fund). The Group entered into the following material transactions with the following related parties:

Transactions with the HKMA, a Government-related entity, included the following:

(i) the Group subscribed to the custodian and clearing agent services provided by the Central Moneymarkets Unit Service operated by the HKMA and paid a total fee amount of HK$2.0 million (2018: HK$1.8 million) to the HKMA for such services during the year;

(ii) the Group incurred a secondment fee of HK$20.4 million (2018: HK$17.8 million) for secondees from the HKMA during the year;

(iii) the Company paid a back-up site service fee of HK$0.6 million (2018: HK$0.6 million) to the HKMA during the year;

(iv) the Monetary Authority through the Exchange Fund provided the Company with a HK$30 billion Revolving Credit Facility and there was no outstanding balance as at 31 December 2019 (2018: nil); and

(v) the Monetary Authority through the Exchange Fund committed to inject additional funds up to HK$20 billion into the Company as equity for the purpose of financing the Company's additional capital injection into the HKMCA and the Company committed to inject such additional funds into the HKMCA as equity if the solvency ratio of the HKMCA would fall below a certain percentage.

Transactions with the Government included the following:

(i) No mortgage loans were purchased from The Financial Secretary Incorporated in 2019 (2018: HK$281 million); and

(ii) the Group provided two loan guarantee products with 80% and 90% guarantee coverages respectively under its SME Financing Guarantee Scheme (**SFGS**) at a concessionary guarantee fee rate and up to respective total loan guarantee commitments of HK$100 billion and HK$33 billion reimbursable by the Government with details set out in Note 31.

Transactions with HKMC Mortgage Management Limited (**HMML**), a wholly-owned subsidiary of the Company, included the following:

(i) the Company funded loan acquisition under the MIP and origination under the Reverse Mortgage Programme (**RMP**) by the HMML with general insurance covers from the HKMCI; and

(ii) the Company as scheme operator, the HMML and various participating banks as loan originators maintained their loan participation agreements under the Microfinance Scheme pursuant to which the HMML would fund all or part of the microfinance loans.

Transactions with the HKMCA and the HKMCI, both being wholly-owned subsidiaries of the Company, included the following:

(i) the Company provided a facility up to HK$10 billion to the HKMCA to fund the HKMCA's annuity business operation. The interest income therefrom was HK$3.7 million during the year (2018: HK$0.1 million) and the aggregate amount of the outstanding principal balance and the accrued interest as at 31 December 2019 was HK$425.3 million (2018: HK$35.1 million);

(ii) the Company maintained a cash placement arrangement with the HKMCA for managing the capital and surplus funds generated in the normal course of business operation of the HKMCA. The interest expense thereon was HK$3.3 million during the year (2018: HK$2.1 million) and the aggregate amount of the outstanding principal balance and the accrued interest as at 31 December 2019 was HK$46.1 million (2018: HK$44 million);

(iii) the Company provided a facility up to HK$2 billion to the HKMCI to fund the HKMCI's business operation. The interest income therefrom was HK$21.6 million during the year (2018: nil) and the aggregate amount of the outstanding principal balance and the accrued interest as at 31 December 2019 was HK$1,521.6 million (2018: nil); and

(iv) the Company maintained a cash placement arrangement with the HKMCI for managing the capital and surplus funds generated in the normal course of business operation of the HKMCI. There was no interest expense during the year (2018: HK$13.6 million) and no outstanding balance for cash placement with the Company as at 31 December 2019 (2018: nil).

There were arrangements whereby the Company provided headoffice corporate support services and funding arrangements to its subsidiaries during the year. Fees on these transactions were determined on an arm's length basis.

Balances of amounts due to relevant related parties as at the end of the reporting period are as follows:

	The Exchange Fund		The Government	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Placements with the Exchange Fund (Note 19)	**12,881,627**	7,734,934	-	**-**
Other liabilities (Notes 24 and 31)	-	-	**4,866,088**	4,762,799

(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, including directors and senior officers.

Compensation of the key management personnel compensation for the year comprised:

	2019	2018
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**29,541**	23,270
Post-employment benefits	**2,458**	2,274
	31,999	25,544

29. Commitments

(a) Capital

	2019	2018
	HK$'000	HK$'000
Authorised and contracted for	**1,667**	803
Authorised but not contracted for	**39,892**	42,269
	41,559	43,072

The above capital commitments mainly relate to commitments to purchase computer equipment and software.

(b) Operating lease

As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were as follows:

	2018
	HK$'000
Office premises:	
- not later than one year	53,197
- later than one year and not later than five years	50,313
	103,510

30. Mortgage Insurance Programme and Reverse Mortgage Programme

As at 31 December 2019, the total risk-in-force of the Group under the MIP was approximately HK$27.9 billion (2018: HK$23.7 billion) of which HK$4.8 billion (2018: HK$4 billion) was ceded to the approved reinsurers and the balance of HK$23.1 billion (2018: HK$19.7 billion) was retained by the Group.

As at 31 December 2019, the total risk-in-force of the Group under the RMP was approximately HK$12.5 billion (2018: HK$9.6 billion) of which HK$1.3 billion (2018: nil) was ceded to the approved reinsurer and the balance of HK$11.2 billion (2018: HK$9.6 billion) was retained by the Group.

31. 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 and up to a total loan guarantee commitment of HK$100 billion and HK$33 billion respectively reimbursable by the Government. 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.

Regarding the special loan guarantee products, there is no impact on the consolidated income statement of the Group in respect of guarantee fee revenue, default claims or any direct expenses involved. Given that the Group operates only the 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 the products has not been included as the Group's off-balance sheet exposures.

32. Events occurring after the reporting period

After the outbreak of Coronavirus Disease 2019 (**COVID-19 outbreak**) in early 2020, a series of precautionary and control measures had been and continued to be implemented across the city. The Group would pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements was authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

33. Statement of financial position and reserve movement of the Company

33.1 Statement of financial position of the Company as at 31 December 2019

	Note	2019	2018
		HK$'000	HK$'000
ASSETS			
Cash and short-term funds		**26,239,139**	27,251,724
Interest and remittance receivables		**481,196**	392,545
Derivative financial instruments		**200,702**	161,047
Loan portfolio, net		**5,089,549**	4,219,189
Investment securities:			
- at fair value through other comprehensive income		**4,920,402**	5,091,664
- at fair value through profit or loss		**378,803**	543,612
- at amortised cost		**10,245,148**	8,938,368
Interests in subsidiaries		**11,820,677**	10,211,083
Prepayments, deposits and other assets		**1,094,115**	648,467
Fixed assets		**84,228**	30,935
Total assets		**60,553,959**	57,488,634
LIABILITIES			
Interest payable		**372,926**	257,499
Placements by subsidiary		**46,000**	44,000
Accounts payable, accrued expenses and other liabilities		**4,771,746**	4,604,471
Derivative financial instruments		**299,935**	264,386
Current tax liabilities		**87,226**	87,226
Deferred tax liabilities		**4,939**	3,528
Debt securities issued		**39,710,963**	37,292,877
Total liabilities		**45,293,735**	42,553,987
EQUITY			
Capital and reserves attributable to the equity holder:			
Share capital		**7,000,000**	7,000,000
Retained profits	32.2	**8,235,410**	7,937,098
Fair value reserve	32.2	**24,814**	(2,451)
Total equity		**15,260,224**	14,934,647
Total liabilities and equity		**60,553,959**	57,488,634

Approved and authorised for issue by the Board of Directors on 27 April 2020.

Eddie W. M. Yue
Deputy Chairman and Executive Director

Raymond L. C. Li
Executive Director and Chief Executive Officer

33.2 Reserves of the Company

	Retained profits	Contingency reserve	Fair value reserve	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Balance as at 1 January 2018	5,894,273	1,679,837	4,717	7,578,827
Profit for the year	362,988	-	-	362,988
Other comprehensive income:				
Change in the fair value of debt securities at FVOCI	-	-	(7,182)	(7,182)
Change in the loss allowance of debt securities at FVOCI	-	-	14	14
Total comprehensive income for the year	362,988	-	(7,168)	355,820
Transfer of 50% or 75% of net risk premium earned from retained profits to contingency reserve	(63,784)	63,784	-	-
Release of contingency reserve to retained profits	1,743,621	(1,743,621)	-	-
As at 31 December 2018	7,937,098	-	(2,451)	7,934,647
Changes on adoption of HKFRS 16	(1,214)	-	-	(1,214)
Restated balance as at 1 January 2019	**7,935,884**	**-**	**(2,451)**	**7,933,433**
Profit for the year	**299,526**	**-**	**-**	**299,526**
Other comprehensive income:				
Change in the fair value of debt securities at FVOCI	**-**	**-**	**27,311**	**27,311**
Change in the loss allowance of debt securities at FVOCI	**-**	**-**	**(46)**	**(46)**
Total comprehensive income for the year	**299,526**	**-**	**27,265**	**326,791**
As at 31 December 2019	**8,235,410**	**-**	**24,814**	**8,260,224**

34. Directors' material interests in transactions, arrangements and contracts

At no time during the year ended 31 December 2019, there subsisted or entered into any 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 of the Company 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.

35. Approval of financial statements

The financial statements were approved by the Board of Directors on 27 April 2020.

THE ISSUER

The Hong Kong Mortgage Corporation Limited
香港按揭證券有限公司
34th Floor, Cosco Tower (High Block), Grand Millennium Plaza
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Dublin 1, Ireland

REGISTRAR

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(formerly known as Citigroup Global Markets Deutschland AG)
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CMU LODGING AGENT

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Hong Kong

1 February 2021

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

Issue of U.S.$50,000,000 0.39 per cent. Notes due 4 February 2022 under the U.S.$12,000,000,000 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 2020 (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 and in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (together, the **Professional Investors**)) only.

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 and 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 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.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors 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.

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. 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 / Professional investors and eligible counterparties only 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 market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA AND 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 European Economic Area (**EEA**) or 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 (11) of Article 4(1) of MiFID II (as amended, **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 (the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) 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 prescribed capital markets products (as defined in the CMP Regulations 2018) 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).

1.	Issuer:		The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司
2.	(i)	Series Number:	M1_154
	(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:		United States Dollar (**U.S.$**)
4.	Aggregate Nominal Amount:		
	(i)	Series:	U.S.$50,000,000
	(ii)	Tranche:	U.S.$50,000,000
5.	(i)	Issue Price:	100.00 per cent. of the Aggregate Nominal Amount
	(ii)	Net Proceeds:	U.S.$49,985,000.00
6.	(i)	Specified Denomination(s):	U.S.$200,000
	(ii)	Calculation Amount:	U.S.$200,000

7.	Issue Date:	4 February 2021
8.	Maturity Date:	4 February 2022
9.	Interest Basis:	0.39 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 5 February 2021
14.	Method of distribution:	Non-syndicated

Provisions Relating to Interest (If Any) Payable

15.	Fixed Rate Note Provisions:		Applicable
	(i)	Rate(s) of Interest:	0.39 per cent. per annum payable in arrear on the Interest Payment Date
	(ii)	Interest Payment Date(s):	4 February 2022
	(iii)	Fixed Coupon Amount(s) for Notes in definitive form:	U.S.$780 per Calculation Amount
	(iv)	Broken Amount(s) for Notes in definitive form:	Not Applicable
	(v)	Day Count Fraction:	30/360, Unadjusted Following Business Day Convention
	(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:	Bearer Notes: Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes only upon the occurrence of an Exchange Event
25.	Additional Financial Centre(s) or other special provisions relating to Payment Days:	Hong Kong, London and New York
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 Annex to this Pricing Supplement

Distribution

31.	(i)	If syndicated, names of Managers:	Not Applicable
	(ii)	Stabilisation Manager (if any):	Not Applicable
32.	If non-syndicated, name of relevant Dealer:		Citigroup Global Markets Limited
33.	U.S. Selling Restrictions:		Reg. S Category 2; TEFRA D
34.	Additional selling restrictions:		Not Applicable

Operational Information

35.	ISIN:	XS2294347641
36.	Common Code:	229434764
37.	CMU Instrument Number:	Not Applicable
38.	Any clearing system(s) other than Euroclear or Clearstream or CMU Service, 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 Frankfurt:	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:	London
42.	Additional Paying Agent(s) (if any):	None
43.	Legal Entity Identifier:	254900W04TBDJ4UBOS04

Listing Application

This Pricing Supplement comprises the final terms required to list the issue of the Notes described herein pursuant to the U.S.$12,000,000,000 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

(S.D.)	(S.D.)
By: ______________________	______________________
Authorised Signatory	*Authorised Signatory*
LIU Chi Keung	CHENG Kam Chuen, Desmond
Senior Vice President (Finance)	Senior Vice President (Risk)

Annex

The Offering Circular dated 26 June 2020 is hereby amended, revised or supplemented with the following updated information, which shall be deemed to be incorporated into, and form part of, the Offering Circular:

"**Updated Information**

Recent Development

The revolving credit facility provided by the Exchange Fund to the Issuer was increased in October 2020 to HK$80 billion from HK$30 billion.

Based on preliminary assessment of the management of the Issuer, for the year ended 31 December 2020, the Group expects to record a consolidated loss after tax as compared to the profit after tax of HK$317 million for 2019. The change from profit to loss was primarily attributable to (a) the booking of increasing upfront commission expenses arising from the significant surge in the volume of new mortgage insurance underwritten following the amendments to the Mortgage Insurance Programme of the HKMC Insurance Limited (**HKMCI**) introduced in October 2019 whereas premium income was amortised over the life of the respective loans; (b) an increase in accounting loss of the HKMC Annuity Limited (**HKMCA**) as a result of the prudent provisions for its investments and statutory reserves in tandem with the increase in new annuity plans written and annuity payments; and (c) the adverse impact of the COVID-19 pandemic and US-China geopolitical tensions, which unfavourably impacted the revaluation of investments that are classified as investment securities at fair value through profit or loss upon the adoption of Hong Kong Financial Reporting Standard 9 "Financial Instruments" since 2018 (see also "*Description of the Issuer – Business Overview – Business Areas – Mortgage Insurance Programme", "Risk Factors – Risks Relating to the Issuer's Subsidiaries – Exposure to the risks under the HKMC Annuity Plan", and "Risk Factors – Risks Relating to the Issuer – Implementation of Hong Kong Financial Reporting Standard 9 "Financial Instruments" (HKFRS 9)"*). The Group is still finalising its financial results for the year ended 31 December 2020.

Notwithstanding the expected loss, the capital position of the Issuer remained solid with Capital Adequacy Ratio (**CAR**) as at 31 December 2020 well above the minimum ratio of 8% stipulated in the Guidelines on CAR. The solvency ratios of the HKMCI and the HKMCA as at 31 December 2020 were also well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.

Change of Senior Vice President (Operations)

The Issuer has appointed Mr CHAN Ling Hang as Senior Vice President (Operations) in place of Ms LEUNG Ching Han with effect from 11 January 2021.".