



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

A nighttime photograph of the Hong Kong skyline, showing numerous illuminated skyscrapers and buildings reflected in the water.

The Hong Kong Mortgage Corporation Limited

2022 Social Bond

Allocation Update and Impact Report

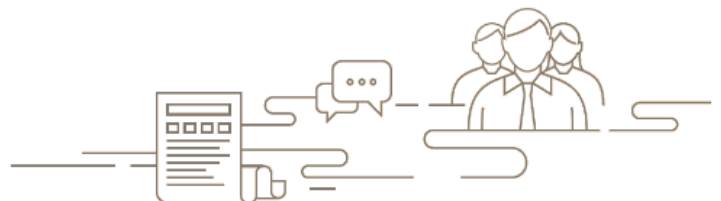


Introduction

The **Hong Kong Mortgage Corporation Limited** (“HKMC” or the “Group”), incorporated since March 1997, is wholly owned by the Government of the Hong Kong Special Administrative Region of the People’s Republic of China (the “HKSAR Government”) through the Exchange Fund. The Group has three wholly-owned principal operating subsidiaries: HKMC Insurance Limited, HKMC Annuity Limited and HKMC Mortgage Management Limited.

The Group is committed to its core missions of promoting stability of the banking sector, wider home ownership, development of the local debt market and development of retirement planning market in Hong Kong, through the following main business activities:

- Promote stability of the banking sector: purchases residential mortgage assets.
- Support home ownership in Hong Kong: operates the Mortgage Insurance Programme.
- Support small and medium enterprises (“SMEs”) in Hong Kong: operates a platform for the HKSAR Government to provide financial guarantee cover to banks in respect of loans advanced to local non-listed enterprises, including SMEs.
- Promote development of the retirement planning market: offers retirement products, namely the Reverse Mortgage Programme, the Policy Reverse Mortgage Programme and the HKMC Annuity Plan, to provide retirees with immediate, stable and lifelong streams of income.
- Consolidate Hong Kong as infrastructure financing hub and fill the infrastructure financing market gaps: purchases and co-finances infrastructure loans, and at right market conditions, securitises these loan assets to further its mandates of promoting development of local debt market and stability of the banking sector and facilitating infrastructure investment and financing flows, benefiting financial and professional service sectors.
- Promote development of Hong Kong debt market: continues to play its key role and keep regular presence in the local debt market development.





HKMC Environmental, Social and Governance (“ESG”) Strategy

In 2022, the Group continued to maintain its commitment to ESG development in terms of social contributions, community support, corporate governance, staff wellbeing and environmental performance. Based on its ESG materiality assessment, the Group formulated its ESG strategy around the material topics identified, which is summarised in the diagram below:

HKMC Group’s Core Missions

Stability of Banking Sector

Wider Home Ownership

Development of Local Debt Market

Development of Retirement Planning Market

ESG Pillars of the HKMC Group



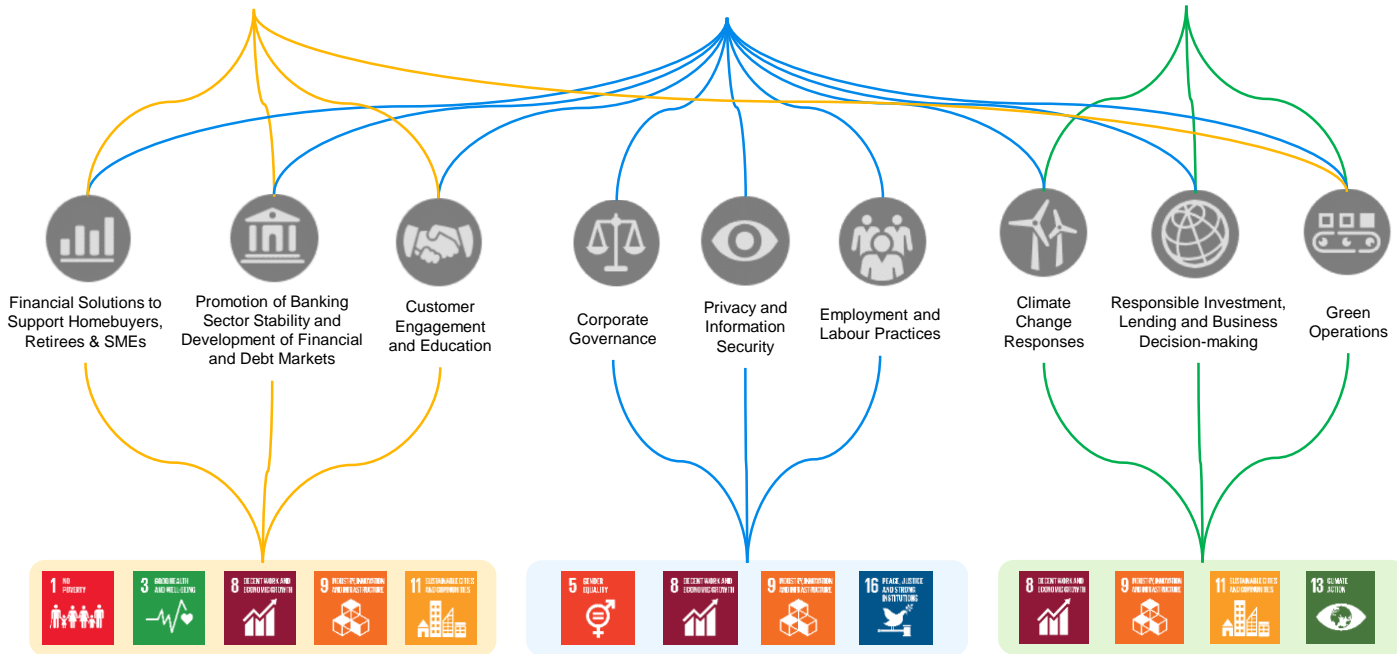
Contributing to the Society



Upholding Governance Standards, Operational Resilience and Workplace Inclusion



Meeting Environmental Concerns



ESG Pillars of the HKMC Group



HKMC Social, Green and Sustainability Financing Framework

In September 2022, HKMC launched its Social, Green and Sustainability Financing Framework (the “Framework”) as part of its overall approach to expand and implement its sustainability strategy as an integral part of its business strategy. This Framework focuses on the HKMC’s sustainable initiatives and how the Group supports and is aligned with the Hong Kong’s long-term sustainability visions. HKMC will use this Framework as the basis to structure and issue green, social and/or sustainability bond(s) and asset-backed securities via public issuance and private placement (referred as “Sustainable Financing Instruments”), to support the growth of assets or projects with environmental and/or social benefits.

HKMC received an opinion on the Framework from Morningstar Sustainalytics, a globally-recognized provider of ESG research, ratings and data, that its Framework is credible and impactful and aligns with the relevant industry standards.

The Sustainable Financing Instrument(s) issued under this Framework will be structured in alignment with the Social Bond Principles (2021), Green Bond Principles (2021) and the Sustainability Bond Guidelines (2021) released by the International Capital Market Association in June 2022.

HKMC’s intended Eligible Green and Social Asset Categories include:

Eligible Social Asset Categories:

- Social Alleviation: SME
- Access to Essential Services
- Affordable Housing
- Access to Affordable Basic Infrastructure and Services

Eligible Green Asset Categories:

- Renewable energy
- Clean transportation
- Pollution prevention and control
- Sustainable water and wastewater management
- Green Buildings: Data centers
- Energy efficiency



The Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (“100% SFGS”)

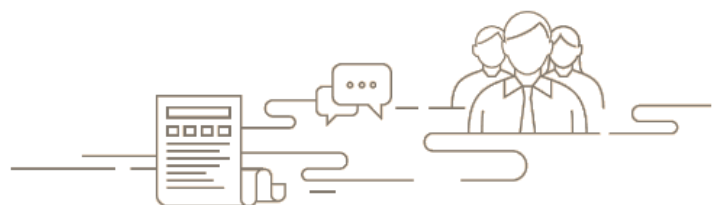
To ease the cash flow problems of local SMEs and non-listed enterprises (collectively, the “Enterprises”) adversely affected by the outbreak of COVID-19, the Financial Secretary announced in the 2020-21 Budget Speech that a **Special 100% Loan Guarantee (“100% SFGS”)** would be introduced under the SME Financing Guarantee Scheme. The 100% SFGS aimed at alleviating the financial burden of paying employee wages and rents by the Enterprises which suffered from reduced income and to help minimise the Enterprises shutting down and layoffs. The loans under 100% SFGS are fully guaranteed by the Government at a concessionary low-interest rate of Prime Rate minus 2.5% per annum, with all guarantee fees waived. The 100% SFGS started to receive applications on 20 April 2020.

In order to further alleviate the cashflow pressure of the Enterprises due to the rapid deterioration of the business environment following the outbreak and spread of the COVID-19 then, the Government introduced various enhancements to and relief measures under the 100% SFGS.

Under the latest enhancements, the eligible Enterprises must have been operating for at least three months in Hong Kong as at 31 March 2022, and have suffered at least 30% decline in sales turnover in any month since February 2020 (“Affected Period”), compared with the monthly average of any preceding quarter from January 2019 to March 2022 (“Reference Period”), provided that the Affected Period must not be earlier than the Reference Period⁽¹⁾.

The maximum loan amount for each eligible Enterprise is the total amount of employee wages and rents for 27 months or HK\$9 million, whichever is the lower. The maximum repayment period is ten years, with an optional principal moratorium to extend the repayment period for up to 42 months.

The application period for the 100% SFGS is until end-March 2024.



(1) For details of the eligibility criteria for 100% SFGS, please refer to https://www.hkmc.com.hk/eng/our_business/sme_financing_guarantee_scheme.html



Bond Issuance Summary

- As of 30th June 2023, one social bond issuance, consisted of two tranches was issued under the Framework on 25 October 2022, key terms as follows:

Issuer	The Hong Kong Mortgage Corporation Limited	
Issue Rating	AA+ (S&P) / Aa3 (Moody's)	
Issue Date	25 October 2022	
	HKD Tranche	CNH Tranche
Issue Size	HK\$8 billion	CNH\$3 billion
Maturity Date	25 October 2024	25 October 2025
Tenor	2 years	3 years
Coupon	5.00% per annum	3.40% per annum
Status	Senior and unsecured	
Listing	The Stock Exchange of Hong Kong Limited	
Use of Proceeds	The net proceeds of the notes issued were used exclusively to finance and / or refinance projects that fall under one or more of the "Eligible Social Asset categories" under the Framework	

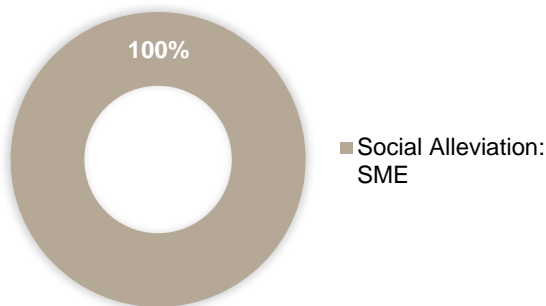
Key achievements by this social bond issuance include:

- World's first dual-tranche HKD and CNH social bond issued by a quasi-sovereign issuer
- HKD tranche: Largest ever Institutional Hong Kong Dollar ESG Bond Issuance
- CNH tranche: Largest ever CNH Social Bond Issuance

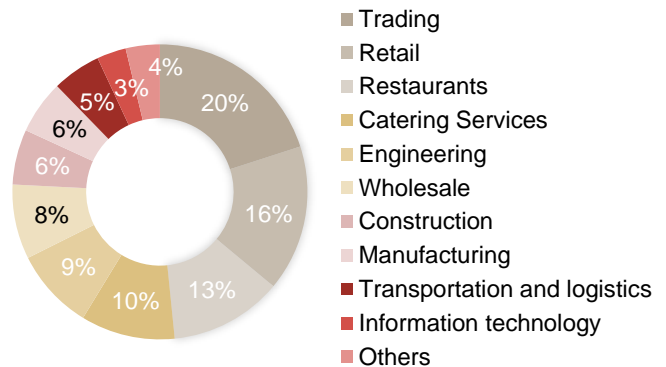
Allocation Reporting

- As of 30th June 2023, 100% proceeds of the social bond issuance, including the 8 billion HKD tranche and the 3 billion CNH tranche, were fully allocated for refinancing loans under the 100% SFGS for qualified SMEs⁽¹⁾, under the Eligible Social Asset Category of Social Alleviation: SME as defined in the Framework.
- The total allocated proceeds amounted to 11.24 billion (HKD Equiv.)⁽²⁾. The allocation of proceeds for the 2 tranches are reported in a combined manner, as HKMC manages the loan assets on a portfolio basis and would like to maintain flexibility in allocating loan proceeds of different tranches to the underlying SMEs loans. The detailed allocation information are as follows.

By Eligible Social Asset Categories



By Type of Business





Eligible Social Asset Category	Type of Business	No. of Eligible SME Loans ⁽²⁾	Amount of Proceeds Allocated (HKD Billion)	Amount of Proceeds Allocated (CNH Billion Equiv.) ⁽³⁾	Amount of Proceeds Allocated (USD Billion Equiv.) ⁽⁴⁾
Social Alleviation: SME UNSDG Alignment: <div style="display: flex; align-items: center; gap: 10px;"> <div style="text-align: center;"> <p>8 DECENT WORK AND ECONOMIC GROWTH</p> </div> <div style="text-align: center;"> <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> </div> </div>	<ul style="list-style-type: none"> HKMC has supported various sectors with 100% SFGS over the last reporting period, including but not limited to: <ul style="list-style-type: none"> Trading; Retail; Restaurants; Catering Services; Engineering; Wholesale; Construction; Manufacturing; Transportation and logistics; Information technology; and Others⁽⁵⁾ 	4,050	11.24	10.41	1.43

(1) As defined by Trade and Industry Department of the HKSAR Government: a small and medium-sized enterprise is any manufacturing business which employs fewer than 100 persons in Hong Kong, or any non-manufacturing business which employs fewer than 50 persons in Hong Kong.
 (2) Same borrowers may make multiple loan applications under 100% SFGS
 (3) CNHHKD used: 1.08
 (4) USDHKD used: 7.84
 (5) Includes sectors such as professional services, real estate and telecommunications



Impact Reporting

- HKMC is committed to provide impact reporting to show the expected positive environmental and/or social benefits of the allocated SMEs⁽¹⁾ loans.
- According to the Framework, HKMC provides loans under the 100% SFGS for qualified SMEs⁽¹⁾, which aim to support local businesses adversely affected by the COVID-19 pandemic to alleviate the financial burden of paying employee wages and rents by the businesses which are suffering from reduced income and to help minimise business shutdowns and layoffs.
- As of 30th June 2023, the social impact of the allocated SMEs⁽¹⁾ loans are consolidated as below:

Eligible Social Asset Category	Type of Business	Number of SMEs Financed ⁽²⁾	Estimated Number of Jobs Supported
Social Alleviation: SME UNSDG Alignment:  	<ul style="list-style-type: none"> ▪ HKMC has supported various sectors with 100% SFGS over the last reporting period, including but not limited to: <ul style="list-style-type: none"> ▪ Trading; ▪ Retail; ▪ Restaurants; ▪ Catering Services; ▪ Engineering; ▪ Wholesale; ▪ Construction; ▪ Manufacturing; ▪ Transportation and logistics; ▪ Information technology; and ▪ Others⁽³⁾ 	3,981	36,026

(1) As defined by Trade and Industry Department of the HKSAR Government: a small and medium-sized enterprise is any manufacturing business which employs fewer than 100 persons in Hong Kong, or any non-manufacturing business which employs fewer than 50 persons in Hong Kong.

(2) Same borrowers may make multiple loan applications under 100% SFGS

(3) Includes sectors such as professional services, real estate and telecommunications



Reporting Methodology

- As of the end of September 2022, HKMC earmarked an adequate amount of SME loans for its inaugural social bond issuance in October 2022. Specific details, such as the type of business and the total number of jobs supported, corresponding to the selected SME loans were continuously recorded.
- The loan portfolio data covered by the report is subject to internal review procedures and review mechanisms established in accordance with the Framework.
- The loan portfolio data included in this report follows the below assumptions:
 - **1) Data preparation date:**
 - There are cases where multiple loan applications by the same SME borrowers were submitted between 1 October 2022 and 30 June 2023, and the relevant loan portfolio data was updated in their new applications submitted. In some cases, applicants may provide different information on their 1) type of business and 2) total number of jobs supported in their applications submitted at different points in time. This loan portfolio data may be subject to further modifications in our database thereafter, based on changes or updates in the status of the SMEs.
 - To avoid any potential misalignment, the information of the SME loans in this report, including: 1) type of business, 2) number of SMEs financed, and 3) estimated number of jobs supported, were reported in accordance with SME application status as of the end of September 2022.
 - For the purpose of Allocation Reporting, the outstanding loan balance of the SME loans earmarked for this social bond issuance is updated as of 30 June 2023.
 - **2) Source of data:**
 - In preparation for the loan portfolio data of the SME loans for disclosure in this report, HKMC relied on the information gathered from the SMEs when they made their applications through various financial institutions in Hong Kong. Such information included but is not limited to 1) indication of their type of business from a pre-defined list in the application form, 2) supplemental information on their business nature (if any), and 3) their total number of jobs supported.
 - HKMC provided the financial institutions with detailed sets of guidelines for their verification of the eligibility of the applicants under the 100% SFGS. The financial institutions used their professional expertise, judgement and care in conducting customer due diligence, reviewing each application, and verifying the eligibility of each loan applicant before submitting the application to HKMC for approval. The financial institutions then entered the application details into an electronic system maintained by HKMC, through which HKMC approved the cases and generated a reference number for each case for identification purpose.
 - A total of 20 participating lending institutions (“PLIs”) accept applications for the 100% SFGS: Allied Banking Corporation (Hong Kong) Limited, Bank of China (Hong Kong) Limited, Bank of Communications Co., Ltd., Bank of Communications (Hong Kong) Limited, China CITIC Bank International Limited, China Construction Bank (Asia) Corporation Limited, Chong Hing Bank Limited, Citibank. N.A., CMB Wing Lung Bank Limited, Dah Sing Bank Limited, DBS Bank (Hong Kong) Limited, Fubon Bank (Hong Kong) Limited, Hang Seng Bank, Limited, Industrial and Commercial Bank of China (Asia) Limited, Nanyang Commercial Bank, Limited, OCBC Bank (Hong Kong) Limited, Shanghai Commercial Bank Limited, Standard Chartered Bank (Hong Kong) Limited, The Bank of East Asia, Limited and The Hongkong and Shanghai Banking Corporation Limited. All PLIs are authorized institutions under the Banking Ordinance of Hong Kong, and the conduct of their business activities are subject to supervision by the Hong Kong Monetary Authority.



Reporting Methodology (cont'd)

- To achieve the Government's policy intent of alleviating the financial burden of SMEs to help minimize the SMEs shutting down and layoffs, the eligibility criteria of the 100% SFGS are simple and clear such that the loan applications can be approved swiftly by PLIs and HKMC. To ensure PLIs' understanding of the 100% SFGS eligibility criteria, HKMC has 1) conducted comprehensive consultation with PLIs before launch of the 100% SFGS, 2) hosted frequent and regular meetings with PLIs to provide guidance, 3) provided detailed and clear implementation guidelines for the PLIs to assess the eligibility of loan applicants and the eligible loan amount for loan applicants, 4) put in place validation rules to screen application received, and 5) conducted random sample checks on loan applications before accepting to purchase SME loans under the 100% SFGS.
- Each qualified SME of the selected SME loans was required to sign off the information and declaration provided on the application form for the 100% SFGS. In particular, the qualified SME loan applicants 1) confirmed that the information and declaration provided at any time or for the purpose of the application was to the best of its knowledge and belief true, accurate, up-to-date and complete as at the date of its submission, and such information and declaration remained true and accurate on the date of drawdown of the loan, and 2) undertook to inform HKMC and the related PLI as soon as practicable if any information and declaration provided in connection with its application was no longer valid or accurate.
- HKMC relies on the professional expertise, judgement and care of the PLIs in conducting customer due diligence, reviewing each application and verifying the eligibility of each SME loan applicant before submitting the applications to HKMC for approval decision. The application information submitted by the PLIs was considered by HKMC as credible and reliable for the purpose of loan approval, considering the reasonable controls that are expected to be in place by PLIs.
- **3) Exclusion of Loans:**
 - In the selection of 100% SFGS loans for the allocation of Social Bond proceeds, HKMC takes into consideration the Exclusionary Criteria as set out in the Framework.
 - In the allocation of proceeds, the ESG Committee of HKMC will conduct due diligence to avoid the inclusion of businesses which it reasonably determines as breaching the Exclusionary Criteria as set out in the Framework.
 - Furthermore, HKMC has identified relevant exclusion keywords and applied them for screening the supplemental information provided by the applicants on their business nature in the application form, for an additional level of screening to exclude loans whose business nature may not be ascertained. HKMC has made a reasonable effort to identify a reasonable coverage of exclusion keywords, but there may be a limitation that the list of exclusion keywords is not sufficiently comprehensive, accurate or exhaustive, and / or the applicants may not have accurately stated their type of business, number of jobs supported and other information required to be disclosed in the application form due to multiple lines of business or other reasons.
 - Such exclusions were made with the endorsement of the ESG Committee of HKMC.
- **4) Outstanding Principal Balance:**
 - The allocated SME loan amount contains only the outstanding balance with no accrued interest.



External Review

- HKMC has engaged PricewaterhouseCoopers as an independent practitioner to provide limited assurance on the reported allocation of the social bond proceeds and selected information disclosed in this report as at 30 June 2023 (the “Information”). The Information is prepared based on the criteria set out in the Reporting Methodology section.

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