



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



The Hong Kong Mortgage Corporation Limited

Social Bonds Allocation Update and Impact Report 2024

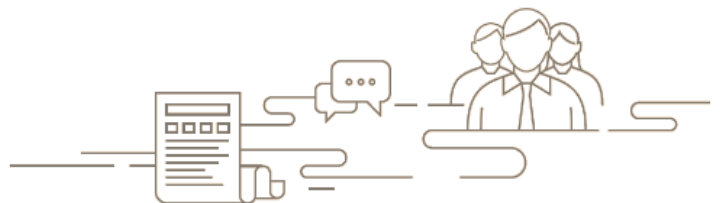


Introduction

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.

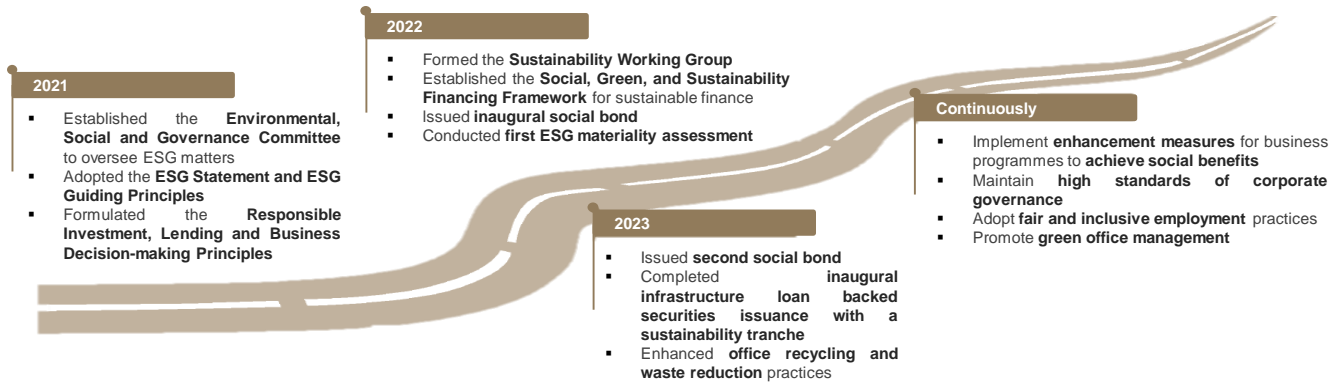
The Group is committed to its core missions of promoting stability of the banking sector, wider home ownership, development of the local debt market and development of retirement planning market in Hong Kong, through the following main business activities:

- 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

Since its establishment, the Group has been endeavouring to pursue social objectives and deliver on its core missions via the implementation of various business programmes. In recent years, the Group has increased its efforts in ESG integration and implementation in its operations, and a snapshot of the key recent ESG developments and achievements of the Group is provided below.



The 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 Group



Contributing to the Society



Upholding Governance Standards, Operational Resilience and Workplace Inclusion



Meeting Environmental Concerns



Financial Solutions to Support Homebuyers, Retirees & SMEs



Promotion of Banking Sector Stability and Development of Financial and Debt Markets



Customer Engagement and Education



Corporate Governance



Privacy and Information Security



Employment and Labour Practices



Climate Change Responses



Responsible Investment, Lending and Business Decision-making



Green Operations





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.

In September 2022, HKMC received an opinion on the Framework from Morningstar Sustainalytics, a globally-recognised provider of ESG research, ratings and data, that the Framework is credible and impactful and aligns with the relevant industry standards.

The Sustainable Financing Instruments 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”)

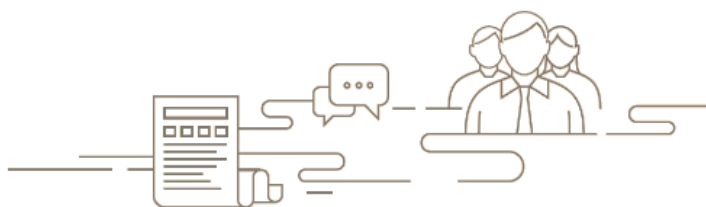
To help ease the cash flow problems of local SMEs and non-listed enterprises (collectively, the “Enterprises”) adversely affected by the outbreak of COVID-19, the Financial Secretary announced in the 2020-21 Budget Speech that a **Special 100% Loan Guarantee (“100% SFGS”)** would be introduced under 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 HKSAR 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 HKSAR 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 expired on 31 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



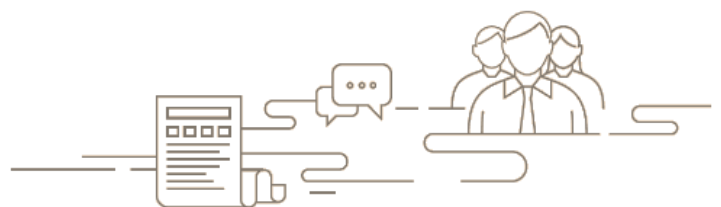
Summary of Issuances



The HKMC has issued two sets of social bonds as of 30 June 2024. The proceeds raised from the two rounds of issuances have been fully allocated or earmarked to eligible social assets.

The details of the social assets and the allocation of proceeds are reported in the ensuing sections.

Round	Date	Description
1	October 2022	<ul style="list-style-type: none">• Inaugural social bond issuance• Comprised 2 tranches, involving 2 currencies: HKD and CNH
2	September 2023	<ul style="list-style-type: none">• Comprised 3 tranches, involving 3 currencies: HKD, CNH and USD• Marked as the largest social bond issuance in Asia by that time





Bond Issuance Summary of the Inaugural Social Bond Issuance in October 2022

- Major terms of the issuance are as follows:

Issuer	The Hong Kong Mortgage Corporation Limited	
Issue Rating*	AA+ (S&P) / Aa3 (Moody's)	
	HKD Tranche	CNH Tranche
Issue Size	HK\$ 8 billion	CNH 3 billion
Issue Date	25 October 2022	25 October 2022
Maturity Date	25 October 2024	25 October 2025
Tenor	2 years	3 years
Yield	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 HKD ESG Bond Issuance
- CNH tranche: Largest ever CNH Social Bond Issuance

*as at 25 October 2022



Bond Issuance Summary of the Social Bond Issuance in September 2023

- Major terms of the issuance are as follows:

Issuer	The Hong Kong Mortgage Corporation Limited		
Issue Rating*	AA+ (S&P) / Aa3 (Moody's)		
	HKD Tranche	CNH Tranche	USD Tranche
Issue Size	HK\$ 9.5 billion	CNH 5 billion	US\$ 650 million
Issue Date	12 September 2023	12 September 2023	13 September 2023
Maturity Date	12 September 2025	12 September 2026	13 September 2028
Tenor	2 years	3 years	5 years
Yield	4.68% per annum	2.98% per annum	4.939% 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:

- Largest social bond issuance in Asia
- First time for a Hong Kong bond issuer to launch HKD, CNH and USD tranches in one transaction

*as at 12 September 2023



Notable Awards and Accolades for the Social Bonds issued in 2023

HKQAA's Hong Kong Green and Sustainable Finance Awards 2023

- Outstanding Award for Green and Sustainable Bond Issuer (Public Sector Entity) - Largest Amount of Social Bonds



Outstanding Award for Green and Sustainable Bond Issuer

FinanceAsia Achievement Awards 2023

- Best Issuer, ESG – Highly Commended (House Award)
- Best Bond Deal, Hong Kong – Highly Recommended (Deal Award)



The Asset Country Awards for Sustainable Finance 2024

- Best Issuer for Sustainable Finance, Hong Kong (House Award)
- Best Social Bond, Hong Kong (Deal Award)

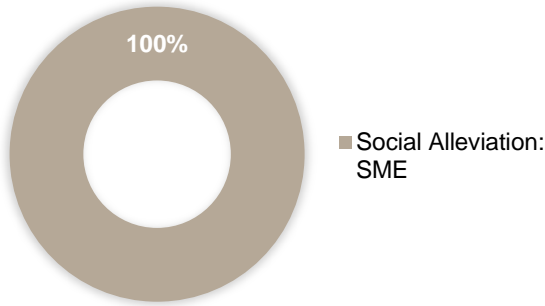




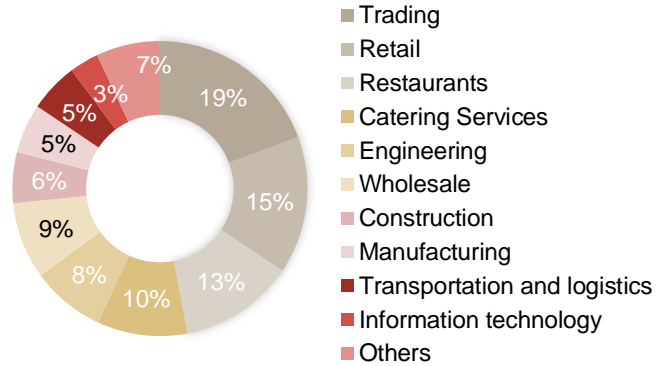
Allocation Reporting

October 2022 Social Bond Issuance

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 Equiv.) ^{(3) (4)}	Amount of Proceeds Allocated (CNH Billion Equiv.) ^{(3) (4)}	Amount of Proceeds Allocated (USD Billion Equiv.) ^{(3) (4)}
Social Alleviation: SME ⁽¹⁾	<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⁾ 	4,359	11.21	10.48	1.44

(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: 1.07

(4) USDHKD used: 7.81

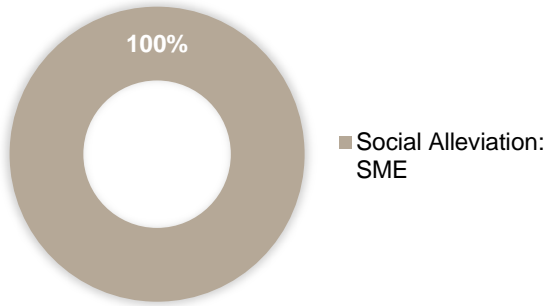
(5) Includes sectors such as professional services, real estate and telecommunications



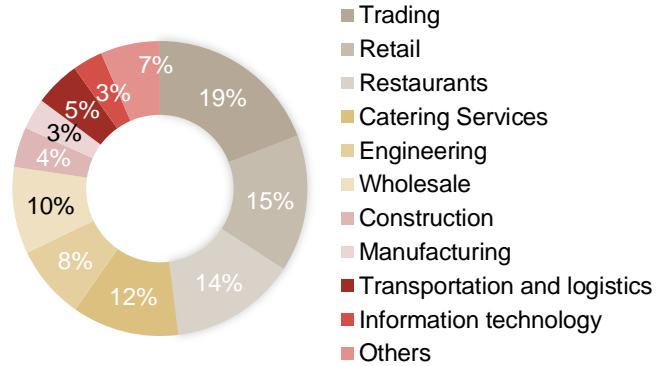
Allocation Reporting

September 2023 Social Bond Issuance

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 Equiv.) ^{(3) (4)}	Amount of Proceeds Allocated (CNH Billion Equiv.) ^{(3) (4)}	Amount of Proceeds Allocated (USD Billion Equiv.) ^{(3) (4)}
Social Alleviation: SME ⁽¹⁾	<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⁾ 	6,874	19.93	18.62	2.55

(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: 1.07

(4) USDHKD used: 7.81

(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 provided loans under the 100% SFGS to qualified SMEs⁽¹⁾ adversely affected by the COVID-19 pandemic to alleviate the financial burden of paying employee wages and rents by the businesses and to help minimise business shutdowns and layoffs.
- As of 30th June 2024, the social impact of the allocated SMEs⁽¹⁾ loans are consolidated as below:

Applicable Issuance	Eligible Social Asset Category	Type of Business	Number of SMEs Financed ⁽²⁾	Estimated Number of Jobs Supported
October 2022 Social Bond	Social Alleviation: SME	<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⁾ 	4,292	38,440
September 2023 Social Bond			6,650	51,224

(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 June 2024, HKMC earmarked an adequate amount of SME Loans for its inaugural social bond issuance in October 2022 (the “2022 Social Bonds”) and second social bond issuance in September 2023 (the “2023 Social Bonds”). Specific details, such as the type of business and the total number of jobs supported, corresponding to the selected SME Loans were recorded when the applications are made.
- 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:**
 - For the purpose of Allocation Reporting,
 - the Amount of Proceeds Allocated reflects the outstanding loan balance of the SME Loans earmarked for the social bond issuances as of 30 June 2024; and
 - the Number of SMEs Financed and the Number of Eligible SME Loans represent the total number of individual SME applicants and related approved loan applications associated with the loans earmarked for the social bond issuances as of 30 June 2024, respectively.
 - During the year ended 30 June 2024, some of the loans initially allocated for the 2022 Social Bonds were paid down or written down. The related bond proceeds were reallocated to refinance other loans under the 100% SFGS which were not previously funded by the issuance (the “Replenishing Loans”). This is to ensure that the bond proceeds are fully allocated.
 - The other reported information including 1) Type of Business and 2) Estimated Number of Jobs Supported is generally based on the information represented by the SME borrowers at the time when the applications were received and therefore may not reflect the latest circumstances of the SME borrowers as of 30 June 2024. In the situation where the SME borrowers made multiple loan applications, the Type of Business and the Estimated Number of Jobs Supported are reported based on the latest applications received from these borrowers by 30 September 2022 for the 2022 Social Bonds and by 30 July 2023 for the 2023 Social Bonds. For the Replenishing Loans, the Type of Business and the Estimated Number of Jobs Supported are based on the latest applications received from the SME borrowers up to 31 March 2024. For the avoidance of doubt, for SME borrowers with multiple loan applications, the number of SME entities and their respective number of jobs supported are counted only once for the Number of SMEs Financed and Estimated Number of Jobs Supported disclosed in this report.
- **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.



Reporting Methodology (cont'd)

- 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.
- To achieve the HKSAR 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 consultations 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 applications 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 relied 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 put 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 conducted due diligence to avoid the inclusion of businesses which it reasonably determines as coming within the Exclusionary Criteria as set out in the Framework.
 - Furthermore, HKMC also performed additional screening such as keyword searches to assess the business nature represented by loan applicants. HKMC has made reasonable efforts 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 2024 (the “Information”). The Information is prepared based on the criteria set out in the Reporting Methodology section.

The Hong Kong Mortgage Corporation Limited
Level 65, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong
Tel: (852) 2536 0000 Fax: (852) 2536 0999
Website: www.hkmc.com.hk

香港按揭證券有限公司
香港九龍
柯士甸道西一號
環球貿易廣場65樓
電話: (852) 2536 0000 圖文傳真: (852) 2536 0999
網址: www.hkmc.com.hk