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

The Social, Green and Sustainability Financing Framework

September 2022

Contents

Introduction

About the HKMC

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 ("**HKMCI**"), HKMC Annuity Limited ("**HKMCA**") and HKMC Mortgage Management Limited ("**HMML**").

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 small and medium enterprises.
- **Promote development of the retirement planning market**: offers retirement products, namely the Reverse Mortgage Programme ("**RMP**"), the Policy Reverse Mortgage Programme ("**PRMP**") 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.

Group ESG Governance

In 2021, the Group established the Environmental, Social and Governance ("**ESG**") Committee ("**ESG Committee**") to lead its sustainability efforts, oversee the implementation of its ESG strategies, monitor and manage the associated risks. The ESG Committee is responsible for reviewing, approving and updating the Group's ESG strategies, policies and plans, monitoring ESG trends and issues that are material to the Group and overseeing the implementation of the Group's ESG strategy.

The ESG Committee is chaired by the Chief Executive Officer of the HKMC; members include the CEOs of the HKMCA and the HKMCI, and senior representatives of relevant departments of the Group.

Since 2021, the Group has adopted its ESG Statement and ESG Guiding Principles, detailed as follows, which serve to guide the HKMC's approach to incorporating ESG factors in its corporate strategy and operations.

ESG Statement

The Group is committed to operating and carrying on business in a responsible and sustainable manner while applying high standards of corporate governance. This commitment is embedded in the way it operates, serves its customers, accounts to its stakeholders, cares for its staff, manages its impact on the environment and contributes to its community.

ESG Guiding Principles[1]

Areas	Guiding Principles
Contributing to the Society	▪ Offer financing solutions that support home ownership, facilitate retirement financial planning, and help to meet the financing needs of small and medium-sized enterprises in Hong Kong ▪ Provide products and services that facilitate banks' liquidity and risk management to promote stability of the banking sector in Hong Kong ▪ Support the financial and debt markets in Hong Kong, and talent developments as well as financial education, in areas pertinent to our core missions
Upholding Governance Standards, Operational Resilience and Workplace Inclusion	▪ Adhere to best practices of corporate governance and maintain high standards of professionalism, integrity and ethics in our work ▪ Safeguard operational resilience and information security by continuous risk surveillance, system set-up and proper response ▪ Promote inclusion and equality in the workplace, and foster staff wellness and development
Meeting Environmental Concerns	▪ Devise strategic response to and implement plans to meet the risks and ride on opportunities relating to climate change and Hong Kong's long-term sustainability vision ▪ Adopt and integrate ESG principles in our investment, lending and business decision-making activities ▪ Strive for positive environmental impact with our operations and promote eco-friendly work practices and culture

Sustainability Objectives and Initiatives

The HKMC achieves social objectives via the implementation of its core missions and the delivery of socially responsible products and services. During the COVID-19 pandemic, for example, the Group has continued providing support to local communities in Hong Kong through various guarantee programmes and initiatives such as the SME Financing Guarantee Scheme ("**SFGS**") and the 100% Personal Loan Guarantee Scheme ("**PLGS**").

[1] The ESG Guiding Principles were updated and approved by the ESG Committee on 13 October 2022.

Continuing Support for SMEs through the SFGS

To help tide the SMEs and non-listed enterprises over financing difficulties as a result of a possible credit crunch in midst of the uncertain global economic environment, the HKSAR Government continues its support for SME bank financing with the 80% and 90% guarantee products of the SFGS under the entrusted operation of the HKMCI.

The Group maintains close communication with participating lenders, SME associations as well as commerce and industry chambers to help address the evolving needs of SMEs in financial difficulties.

As a further step to ease the cash flow problems of enterprises adversely affected by the COVID-19 pandemic, the HKSAR Government launched the Special 100% Loan Guarantee ("**100% SFGS**") under the SFGS in April 2020, which aims to alleviate the financial burden of paying employee wages and rents by the enterprises which are suffering from reduced income and to help minimise shut-downs and layoffs. The HKMCI is the scheme administrator and the Group purchases loans originated under the 100% SFGS which is fully guaranteed by the HKSAR Government.

As of the end of 2021, the HKMCI had approved more than 21,300, 5,500 and 47,000 applications for loans amounting to HK$92.5 billion, HK$10.6 billion and HK$81.6 billion since the launch of the 80%, 90% and 100% guarantee products respectively, benefitting more than 45,000 local SMEs and 640,000 related employees.

Supporting Unemployed Individuals During the COVID-19 pandemic

Since the COVID-19 pandemic, the Hong Kong economy has been facing tremendous pressure. To alleviate the impact of rising unemployment, the Financial Secretary announced in the 2021-2022 Budget the PLGS to provide concessionary low-interest loans, as a supplementary financing option, for unemployed individuals, subject to eligibility criteria. The HKMCI is a scheme administrator and the Group purchases loans originated under the PLGS. The HKSAR Government provides funding to the Group for the purchase of loans.

Supporting Home Ownership

With the promotion of wider home ownership as one of its core missions, the HKMCI operates a Mortgage Insurance Programme ("**MIP**") which is an integral part of the local property mortgage market. The MIP helps potential homebuyers who have limited resources for substantial down payment for the purchase of a property. From its inception in 1999 up to end of 2021, the MIP had assisted more than 192,000 families to buy their homes and continued to observe a drastic surge in demand for the applications of MIP. In addition, the HKMC has introduced the Fixed Rate Mortgage Scheme ("**FRMS**") for fixed-rate mortgages for 10, 15 and 20 years. The FRMS aims to provide an alternative financing option to homebuyers for mitigating their risks arising from interest rate volatility, thereby enhancing banking stability in the long run.

Filling the Infrastructure Financing Market Gaps

In anticipation of the demand for infrastructure financing in the market, the HKMC saw an opportunity to further promote banking stability and local debt market development in Hong Kong, and at the same time help consolidate Hong Kong's position as an infrastructure financing hub, by establishing the Infrastructure Financing and Securitisation ("**IFS**") Division in 2019 to participate in the infrastructure financing market. The HKMC purchases and accumulates infrastructure loans from commercial banks, as well as co-finances infrastructure projects with multilateral development banks and commercial banks. It will, under the right market conditions, securitise these loan assets to further its mandate of promoting the local debt market development in Hong Kong.

Promote and Enable Retirement Planning in Hong Kong

In the summer of 2021, the HKMC launched "HKMC Retire 3" branding to promote its retirement products – the RMP, the PRMP and HKMC Annuity Plan – as an all-inclusive solution for retirement planning. The three products provide retirees with immediate, stable and lifelong streams of income, a rarity in the market.

Retirees would be secured from a stream of steady cash flow on retirement, using relatively illiquid assets as collateral, including properties in the case of the RMP and death benefits of life insurance policies in the case of the PRMP, or a contribution of a single premium in the case of HKMC Annuity Plan.

Climate Commitments

As a public sector entity, the HKMC supports the HKSAR Government's carbon neutrality commitments and Hong Kong's Climate Action Plan 2050.

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

The Group has adopted its Responsible Investment, Lending and Business Decision-making Principles in 2021, which sets out the framework for ESG integration. Through ESG integration, the Group identifies and evaluates ESG factors in its decision-making processes which include standard risk assessment and thematic investment, lending and business activities. For instance, the Group's infrastructure loan projects and portfolios are subject to initial and regular ongoing environmental and social due diligence and monitoring to ensure that the related ESG risks are appropriately managed.

HKMC Social, Green and Sustainability Financing Framework

As a public sector entity and one of the major debt issuers in Hong Kong, the HKMC launched this Social, Green and Sustainability Financing Framework ("**Framework**") as an extended effort for the HKMC 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.

The Sustainable Financing Instruments issued under this Framework will be structured in alignment with the Social Bond Principles (2021)[2] ("**SBP**"), Green Bond Principles (2021)[3] ("**GBP**"), and the Sustainability Bond Guidelines (2021)[4] ("**SBG**") released by the International Capital Market Association ("**ICMA Principles**") in June 2022.

In particular, sustainable securitisations issued under this Framework will be aligned with the elaboration on "Secured Social / Green Bond" in Appendix 1 (June 2022) of the SBP and GBP.

HKMC structured this Framework following the four components of the ICMA Principles:

- Use of Proceeds;
- Process for Project Evaluation and Selection;
- Management of Proceeds; and
- Reporting.

1. Use of Proceeds

Under this Framework, the HKMC can launch Sustainable Financing Instruments in the following formats:

- Social: proceeds are exclusively allocated to Eligible Social Asset Category(ies);
- Green: proceeds are exclusively allocated to Eligible Green Asset Category(ies); and
- Sustainability: proceeds are allocated to a mix of Eligible Green Asset Category(ies) and Eligible Social Asset Category(ies).

An amount equivalent to the net proceeds of any of the HKMC's Sustainable Financing Instruments will be used to finance and/or refinance, in whole or in part, new and/or existing projects, programmes, schemes, plans, products, loans, expenditures and investments falling within one or more of the Eligible Green Asset Categories or Eligible Social Asset Categories as defined below (collectively, the "**Eligible Assets**").

For each sustainable securitisation, the Group or the issuer of asset-backed securities will adopt one of the following approaches and will clearly specify the approach adopted in the marketing materials and transaction documentation for each issuance:

[2] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/
[3] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/
[4] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-bond-guidelines-sbg/

- Secured Sustainable Collateral Bond: a secured bond where the net proceeds will be exclusively applied to finance or refinance the green and/or social project(s) securing the specific bond only.
- Secured Sustainable Standard Bond: a secured bond where the net proceeds will be exclusively applied to finance or refinance the green and/or social project(s) of the issuer, originator or sponsor, where such projects may or may not be securing the specific bond, in whole or in part. A Secured Sustainable Standard Bond may be a specific class or tranche of a larger transaction.

According to the composition of the collateral asset pool or committed use of proceeds, the respective securitisation (or a specific class or tranche thereof) will bear a "Green", "Social" or "Sustainability" label.

Eligible Social Asset Categories	Eligibility Criteria	Main Social Objectives & UN Sustainable Development Goals Alignment [5]
Social Alleviation: SME	Loans under the Special 100% Loan Guarantee of the SME Financing Guarantee Scheme for qualified SMEs[6], which aim to support local businesses affected by the COVID-19 pandemic.	Support Local Businesses and Unemployment Alleviation
Access to Essential Services	Loans or bonds in infrastructures, projects, corporate, entities, or facilities which provide essential services, such as: (i) expansion of access or provision of subsidised affordable basic healthcare services to the general public[7]; (ii) schools or other education centres that expand access to education and/or for targeted minority[8] inclusion; and (iii) emergency medical response and disease control services[9].	Access to Essential Services

[5] Mainly referencing ICMA's "Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals".

[6] 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.

[7] Affordability of relevant projects will be ensured by one of the following criteria: (1) via subsidies; or (2) where universal healthcare scheme or public insurance is accepted; or (3) tariffs are offered at the same rate as public services.

[8] Targeted minority includes people living below the poverty line defined by local government, excluded and/or marginalised populations and/or communities, people with disabilities, migrants and/or displaced persons, underserved with a lack of quality access to essential goods and services, and women and/or sexual and gender minorities.

[9] Same as footnote 6.

Affordable Housing	Financing to support various local affordable housing schemes in Hong Kong to promote wider home ownership amongst low and moderate income groups.	Affordable Housing
Access to Affordable Basic Infrastructure and Services	Loans or bonds in infrastructure projects, corporate, entities or facilities which provide affordable basic infrastructure and services, such as: (i) electric power transmission and distribution assets for providing power to areas with no access or substantially inadequate access to electricity; (ii) roads, rails or ports that increase access for people in remote areas in developing countries[10] [11]; (iii) water infrastructure such as water pipes, collection and recycling facilities, to provide stable freshwater supply to underserved populations based in areas with no access or substantially inadequate access to safely drinking water; (iv) telecommunication projects to promote digital inclusion in unconnected or underserved[12] communities; and (v) hygiene infrastructure for the public.	Access to Affordable Basic Infrastructure and Services

[10] Excluding high risk countries or regions according to the IFS Compliance Guidelines (see Appendix II for details) which cover the evaluation of anti-money laundering, counter-terrorist financing and sanctions risks of the countries.

[11] Eligible projects are located in areas with no access or substantially inadequate access to transportation. Areas with substantially inadequate access to transportation are defined as areas that have unpaved, ungraded narrow or non-weather proof (mud road) roads or roads with poor conditions (such as potholes, cracked pavement, collapsing shoulders) rendering its use difficult or impossible. In the case of maritime transportation, areas with poor maritime infrastructure such that the ports project will improve travel time or travel capacity by at least 100%.

[12] Underserved is defined as communities which either: Has access to at least mobile service by one operator with limited broadband capacity. The backhaul or access capacity of the given site does not allow for a quality Internet experience; or access to 2G/3G or limited 4G for mobile networks or copper for fixed networks.

Eligible Green Asset Categories	Eligibility Criteria	Main Environmental Objectives[13] UN Sustainable Development Goals Alignment[4]
Renewable Energy	Loans or bonds to support the construction, acquisition or installation of electricity generation, storage, transmission and distribution systems from renewable energy sources, such as: (i) solar, (ii) wind, (iii) geothermal with direct emission threshold of ≤ 100g CO_2/kWh, (iv) hydropower[14]; (v) green hydrogen made using renewable energy; and (vi) bioenergy[15]. In particular, for transmission and distribution systems, the following applies: (i) if the system carries more than 90% electricity from renewable sources, the full financing or project is considered eligible; (ii) if the system carries less than 90% renewable energy, but is on a decarbonisation trajectory with more than 67% of the newly enabled generation capacity in the system below the generation threshold of 100g CO_2e/kWh over a rolling five-year period, according to the EU Taxonomy, then the full financing is considered eligible; and (iii) if the system carries less than 90% renewables, but the percentage of renewables is expected to increase, a pro-rata approach will be adopted for allocation.	Climate Change Mitigation

13 Full mapping please refer to: https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Mapping-SDGs-to-GSS-Bonds_June-2022-280622.pdf

14 For non run-of-river projects, we will follow the criteria of a life-cycle carbon intensity of lower than 50g CO_2e/kWh or power density greater than 10W/m^2 to select eligible projects in operation after 2019.

15 Lifecycle greenhouse gas ("GHG") emissions of electricity ≤100g CO_2/kWh; and feedstock could be from waste or non-waste subject to the following:

- Waste feedstock includes forestry residues, biodegradable waste from household, offices, restaurants, or food processing plants, residues from certified sustainable palm oil operations (e.g. Roundtable on Sustainable Biomaterials ("RSB") and Roundtable on Sustainable Palm Oil) such as palm kernel shells and palm oil mill effluents. Municipal wastes refer to waste-to-energy category.
- Non-waste feedstock: only feedstock certified with credible schemes (such as RSB, International Sustainability & Carbon Certification Plus) will be used; also excluding palm oil and peat, and will not be derived from land with high biodiversity that are in competition with food production or deplete carbon pool.

Clean Transportation	Loans or bonds to support the development, construction, acquisition and manufacturing of low-carbon transportation or related infrastructure[16] such as: (i) for passenger transportation, vehicles or rolling stock that are either fully electric or with tailpipe emissions of below 50g CO_2e per passenger kilometre (gCO_2e/pkm) until 2025 (non-eligible thereafter); (ii) for freight transportation, road freight (e.g. lorries and trucks) and freight rail (trains) that are either fully electric or at or below (≤) 25g CO_2/t-km (tonne-kilometre); and (iii) dedicated parts for clean transportation such as rechargeable batteries, fuel cells, or charging station networks.	Climate Change Mitigation and Pollution Prevention and Control
Pollution Prevention and Control	Loans or bonds to support the development, construction and acquisition of infrastructure intended to achieve pollution prevention and control, such as waste recycling, reuse, treatment and waste-to-energy projects which follow the waste hierarchy (i.e. collection, sorting and recycling before energy recovery)[17].	Pollution Prevention and Control
Sustainable Water and Wastewater Management	Loans or bonds to support the development, construction and acquisition of sustainable water and wastewater management projects, such as: (i) centralised wastewater treatment or recycling systems substituting untreated discharge or more energy-intensive systems; (ii) water collection and water treatment plant facilities to enhance water recycling and reuse; and (iii) projects to improve water management efficiency by reducing leakage or improving water usage efficiency such as water pressure management systems, pump and pipe systems.	Pollution Prevention and Control

[16] Include new lines, line extensions, stations, signalling equipment, etc.
[17] For municipal wastes, the majority of recyclables, especially plastics, will be segregated before energy conversion.

Green Buildings - Data Centres	Loans or bonds in infrastructure projects, corporate, entities or facilities in the construction, refurbishment and maintenance of data centres that meet a power usage effectiveness ("PUE") below 1.5, or the upgrade, retrofit or renovation works in or resulting in achievement of such PUE value.	Climate Change Mitigation
Energy Efficiency	Loans or bonds in infrastructure projects, corporate, entities or facilities in energy efficiency improvement projects, such as: (i) for telecommunication infrastructure projects: modernisation of networks and supporting infrastructure such as replacement of 3G or 4G with 5G, or transformation of legacy networks with more efficient fibre networks; and (ii) other energy efficiency upgrade or improvement projects that result in an energy performance by at least 15% such as installation of LED lightings.	Climate Change Mitigation

Exclusionary Criteria:

For the avoidance of doubt, in any case, the following assets shall not be eligible for the use of proceeds of the HKMC's Sustainable Financing Instruments:

- Nuclear energy generation related assets and projects
- Fossil fuel dedicated assets and projects
- Weapons, gambling and casinos
- Business activities which are prohibited by laws and regulations in HKSAR
- In addition, projects under the Infrastructure Financing and Securitisation Division will be further subject to IFS Division Environmental and Social Exclusion List (Appendix I)

(the "**Exclusionary Criteria**")

2. Process for Project Evaluation and Selection

HKMC has established an internal working group to lead the process of evaluating and selecting projects under this Framework.

In order to ensure strong governance process and inclusivity of expertise from various functions of the Group, the working group consists of senior representatives from the following:

- Treasury;
- SME Financing Guarantee Scheme Operations;
- Infrastructure Financing and Securitisation;
- Marketing & Business Development; and
- Risk Management.

Frontline staff from business lines of the HKMC will be responsible to identify and select potential assets by using this Framework as the primary selection guideline.

In order to ascertain the eligibility of and funding required for potential assets selected for each potential launch of Sustainable Financing Instrument, the working group will identify potential assets and collate relevant information in respect of the selection of those potential assets for the relevant Sustainable Financing Instrument; such information will be one of the factors for the HKMC to determine the format, category of financing instrument, and issuance size range of the potential issuance.

In addition, as part of the Group's decision-making processes for investment, the Group also takes into account the HKMC Responsible Investment, Lending and Business Decision-making Principles to identify and evaluate ESG factors as a key guideline.

For projects potentially subject to medium or high ESG risks, the HKMC will engage in-house expertise or independent consultant(s) to conduct appropriate reviews, and present relevant risk mitigation measures to the working group for consideration.

As a final step, the potential asset selected will be subject to the approval of the ESG Committee, based on the eligibility criteria defined in this Framework and the analysis on the expected environmental and/or social risks and impact relating to the potential assets.

In addition to following the company-wide process, the IFS Division has a more specific process for evaluating and selecting potential infrastructure loan assets. Please refer to Appendix II.

3. Management of Proceeds

The Financial Control Department shall establish an independent allocation register (the "**Register**") to record and track the allocation of the proceeds from the issuance of Sustainable Financing Instruments to the Eligible Assets.

The net proceeds from the issuance of Sustainable Financing Instruments will be deposited in general funding accounts or designated accounts specified by the respective Sustainable Financing Instruments and managed through a formal internal process to ensure the proceeds of the Sustainable Financing Instruments are allocated to the Eligible Assets.

The HKMC intends to fully allocate the net proceeds into Eligible Assets within two years from issuance of the relevant Sustainable Financing Instruments.

The Register will contain, but not limited to, the following information:

- details of each Sustainable Financing Instrument including the instrument type, pricing date, maturity date, currency, gross and net amount of proceeds, coupon/interest rate, etc.;

- information of the list of allocated Eligible Assets for each instrument including the category, asset description, total costs / outstanding loan amount, allocated amount of proceeds etc. of the relevant Eligible Assets; and

- the balance of any unallocated amount of proceeds.

Any balance of net proceeds pending allocation to the Eligible Assets shall be held in accordance with the HKMC's internal liquidity management policy and managed in accordance with the HKMC's Responsible Investment, Lending and Business Decision-making Principles and the Exclusionary Criteria of this Framework.

Post-allocation, the working group will review the assets allocated at least annually or when necessary to ensure that proceeds are allocated to the relevant Eligible Assets in line with the eligibility criteria throughout the tenor of the respective Sustainable Financing Instrument; and for Sustainable Financing Instruments issued in the form of asset-backed securities, which could be a standalone issue or of a specific class or tranche of a larger transaction, a pool of Eligible Assets is managed at a level no less than the net proceeds of the issuance amount of such Sustainable Financing Instruments as collateral.

Any allocated assets that are no longer eligible under the eligibility criteria will be substituted as soon as reasonably practicable and on a best effort basis by other Eligible Assets.

4. Reporting

For Bonds and Asset-Backed Securities:

The HKMC will report on the allocation of net proceeds of each Sustainable Financing Instrument and, where available, environmental and/or social impact indicators on an annual basis until the proceeds have been fully allocated (the "**Report**"), and update the market if there are any material changes to the respective assets on a timely basis.

The working group will lead the drafting of the Report, which will be reviewed and subject to approval by the ESG Committee. The Report will be published as a standalone annual sustainable financing report and/or as a part of the HKMC's annual report and made available through the HKMC's website.

The Report will consist of the following:

1. **Allocation Reporting**

- A list of all Sustainable Financing Instruments issued in the reporting period and outstanding as at the reporting date;

- By each Sustainable Financing Instrument:
  - Amount and percentage of proceeds allocated under Eligible Green Asset Category and/or Eligible Social Asset Category;
  - Description of selected allocated Eligible Assets;
  - Remaining balance of unallocated proceeds for each Sustainable Financing Instrument outstanding;
  - Estimated percentage of financing and refinancing of Eligible Assets; and

- In particular, for each sustainable securitisation and asset-backed securities:
  - Amount of the pool of Eligible Asset of (sub-) collateral allocated to each sustainable securitisation or asset-backed securities, and its key information such as amount and percentage allocated under the Eligible Green Asset Category and/or Eligible Social Asset Category, number of loans and average tenor (if applicable).

2. Impact Reporting

The HKMC is committed to disclosing information of the positive environmental and/or social benefits of the Eligible Assets.

Subject to the availability of data and feasibility, the Report will include the relevant indicators recommended under the Harmonised Framework for Impact Reporting issued by the International Capital Market Association, and the associated impact calculation methodologies and standards. Set out below is a list of examples of indicators for Eligible Green Asset Category and/or Eligible Social Asset Category:

Eligible Social Asset Categories	Examples of Impact Reporting Indicators
Social Alleviation: SME	• Number and type of beneficiaries / loans provided • Number of jobs supported • Type of sectors supported
Access to Essential Services	• Types of essential services provided • Number and type of beneficiaries • Number of essential services facilities financed
Affordable Housing	• Number of beneficiaries / benefited families • Number of affordable housing financing loans granted
Access to Affordable Basic Infrastructure and Services	• Number and type of beneficiaries • Number of projects built to benefit the targeted population • Increase in electrification rates • Increase in digital penetration rates • % of underserved population having new access to the services as a result of infrastructure financed

Eligible Green Asset Categories	Examples of Impact Reporting Indicators
Renewable Energy	• Installed capacity in MW • Estimated annual GHG emissions avoided (in tCO_2e or in %) • Estimated annual renewable energy production (in MWh)
Clean Transportation	• Tracks built / repaired / improved / modernised (in km) • Number of passengers carried • Estimated annual GHG emissions avoided (in tCO_2e or in %) • Estimated fuel consumption reduced (in %)
Pollution Prevention and Control	• Amount of waste reduced • Amount of annual energy generated from non-recyclable waste in energy/emission-efficient waste to energy facilities
Sustainable Water and Wastewater Management	• Number of water treatment facilities built or upgraded • Volume of water saved / reduced / treated (in m^3 or %) • Volume of wastewater treated / reused / reduced (in m^3 or %)

Green Buildings – Data Centres	• Estimated GHG emissions avoided (in tCO_2e or in %, annually or over project lifetime) • Designed or operational PUE achieved • Proportion of energy use from renewable sources
Energy Efficiency	• Energy savings (in MWh/year or in %, annually or over project lifetime) • Energy efficiency of transferred data • Estimated GHG emissions avoided (in tCO_2e or in %, annually or over project lifetime) • Designed or operational PUE achieved

Note: The impact reporting may be based on data sources from external consultants, information and statistics published by government and multilateral agencies and/or estimates by experts.

For Private Placements:

Subject to the terms of the underlying agreements in respect of the Eligible Assets or the Sustainable Financing Instruments, the HKMC will disclose aggregate information on the allocation of proceeds, and provide relevant information on the environmental and/or social impacts of Eligible Assets similar to the approach for bonds and asset-backed securities outlined above.

Subject to the agreement and preference of the lenders and investors, the HKMC may disclose the relevant information in the annual report or in a standalone annual sustainable financing report and made available through the HKMC's website.

External Review

The HKMC has engaged the Sustainalytics to provide a Second Party Opinion report on this Framework and confirm its alignment with the GBP, SBP and SBG. The Second Party Opinion will be available on the HKMC's website.

Appendix I – IFS Division Environmental and Social Exclusion List

The HKMC will not knowingly finance nor invest in the activities below:

- Production or activities involving forced labour[18] or harmful or exploitative forms of child labour[19];
- Production of or trade in any product or any activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as:
    - ❖ Pharmaceuticals;[20]
    - ❖ Polychlorinated Biphenyls ("**PCBs**"), pesticides/herbicides and other hazardous chemicals;[21]
    - ❖ Ozone depleting substances;[22]
    - ❖ Wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora ("**CITES**");[23] and
    - ❖ Transboundary movements of hazardous wastes or other wastes in violation of the Basel Convention;[24]
- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritages;[25]
- Production of or trade in or use of radioactive materials;[26]

[18] Forced labour means all work or service not voluntarily performed, that is, extracted from an individual under threat of force or penalty.

[19] Child labour means the employment of children whose age is below the host country's statutory minimum age of employment or employment of children in contravention of International Labour Organization Minimum Age Convention, 1973 (No. 138) (www.ilo.org). For the purposes of this list, harmful or exploitative forms of child labour means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or harmful to the child's health, or has a negative impact on the child's physical, mental, spiritual, moral, or social development.

[20] Information of pharmaceutical products subject to phase-outs or bans is available at www.who.int.

[21] A list of PCBs, pesticides/herbicides or other hazardous chemicals subject to phase-outs or bans is stipulated in the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade (www.pic.int), the United Nations Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or Not Approved by Governments, and/or the Stockholm Convention on Persistent Organic Pollutants (www.pops.int).

[22] A list of ozone depletion substances, together with target reduction and phase-out dates, is stipulated under The Montreal Protocol on Substances that Deplete the Ozone Layer.

[23] A list of concerned species is available at www.cites.org.

[24] Information of the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal is available at www.basel.int.

[25] Relevant treaties in force and applicable to HKSAR include: Convention on the Conservation of Migratory Species of Wild Animals (www.cms.int); Convention on Wetlands of International Importance especially as Waterfowl Habitat (www.ramsar.org); Convention on Biological Diversity and Cartagena Protocol on Biosafety (www.cbd.int); International Convention for the Regulation of Whaling (www.iwc.int); Plant Protection Agreement for the Asia and Pacific Region (www.fao.org); and Convention Concerning the Protection of the World Cultural and Natural Heritage (whc.unesco.org/en/convention).

[26] This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which IFS considers the radioactive source to be trivial and adequately shielded.

- Production of or trade in or use of asbestos containing products;[27]
- Activities that directly affect primary tropical moist forests or old-growth forests or critical habitats, where significant degradation or conversion is involved;[28]
- Shipment of oil or other hazardous substances in tankers which do not comply with the requirements stipulated by the International Maritime Organization;[29]
- Nuclear projects where the host country has not ratified the relevant convention and treaty30 or the operations are inconsistent with the International Atomic Energy Agency (IAEA) Safety Standards;[31]
- Large dams inconsistent with the World Commission on Dams framework;[32]
- Mining of or trade in rough diamonds unless it is Kimberley Process certified;[33]
- Production of or trade in or distribution of tobacco products violating the Framework Convention on Tobacco Control by the World Health Organization;
- Production of or trade in weapons and munitions, including paramilitary materials;
- Stand-alone gambling establishments or casinos or equivalent premises;
- Coal fired power generation;[34] and
- Coal mining, processing and transport.

[27] Unless expressly permitted by the host country's laws and regulations.

[28] Critical habitat includes areas with high conservation value that meet the criteria of the International Union for Conservation of Nature (IUCN), including habitat required for the survival of critically endangered or endangered species as defined by the IUCN Red List of Threatened Species (www.iucnredlist.org) or as defined in the host country's laws and regulations.

[29] This includes: tankers which do not have all required International Convention for the Prevention of Pollution from Ships (MARPOL) and International Convention for the Safety of Life at Sea (SOLAS) certificates (including, without limitation, International Safety Management (ISM) Code compliance), tankers blacklisted by the European Union or banned by the Paris Memorandum of Understanding on Port State Control and tankers due for phase out under MARPOL regulation 13G.

[30] For example the Convention on Nuclear Safety (www-ns.iaea.org/conventions/nuclear-safety.asp) and the Treaty on the Non-Proliferation of Nuclear Weapons (www.un.org/disarmament/wmd/nuclear/npt/).

[31] Further information on the IAEA Safety Standards is available at www-ns.iaea.org/standards/.

[32] The International Commission on Large Dams (www.icold-cigb.net) defined a large dam is a dam with a height of 15 metres or greater from lowest foundation to crest or a dam between 5 metres and 15 metres impounding more than 3 million cubic metres.

[33] Information regarding Kimberley Process is available at www.kimberleyprocess.com.

[34] Except for the financing led by the multilateral agencies to support the early termination of coal-fired power generation.

Appendix II – Project Evaluation and Selection Process of the Infrastructure Financing and Securitisation Division

In anticipation of the demand for infrastructure financing in the market, the HKMC saw an opportunity to further promote banking stability and local debt market development in Hong Kong, and at the same time help consolidate Hong Kong's position as an infrastructure financing hub, by establishing the Infrastructure Financing and Securitisation ("**IFS**") Division in 2019 to participate in the infrastructure financing market in 2019.

The HKMC purchases and accumulates infrastructure loans from commercial banks, as well as co-finances infrastructure projects with multilateral development banks and commercial banks.

The IFS Division comprises the Investment, Risk Management and Loan Administration Teams. The Investment Team is responsible for deal origination and execution. The Risk Management Team is a risk control unit that is responsible for the credit assessment, day-to-day monitoring, reporting and risk management of the investments. The Loan Administration Team is responsible for the day-to-day loan administration processes.

After a deal is originated by the Investment Team, it has to go through a deal evaluation process, which involves a review of preliminary information received from the sellers, issuers or borrowers, followed by a more in-depth due diligence review. All investments are subject to the approval of the Infrastructure Financing and Securitisation Investment Committee ("**IFSIC**"), a governing forum that includes the following members:

- Executive Director
- Chief Executive Officer
- Chief Investment Officer (IFS Division)
- Senior Vice Presidents representing Operations, Finance (including Treasury) and Risk divisions
- General Counsel representing Legal Office and Compliance Function

Assessment of the ESG related risks is covered by the IFS Risk Management Guidelines ("**IFS RMG**") which comprises, among others, the Environmental and Social ("**E&S**") Guidelines and the Compliance Guidelines that outline the detailed risk management requirements and processes. The IFS Division also follows the company-wide policies in controlling the use of proceeds. In addition, where possible, the IFS Division will work with stakeholders to continuously seek improvement in IFS practices.

The objectives of the E&S Guidelines are to:

- promote environmentally and socially responsible infrastructure financing;
- ensure that the E&S risks management processes are aligned with industry practices and those adopted by the key market players;
- guide how the IFS Division conducts its E&S due diligence for the business activities under consideration, as well as to provide a structured approach to monitor and record borrowers' performances; and
- ensure that the HKMC effectively understands, assesses, and manages E&S risks associated with the IFS transactions.

The E&S Guidelines comprises the IFS Division Environmental and Social Exclusion List, an E&S Categorisation Checklist and Sector Guidelines, which may be subsequently updated to align with the evolving market standards and regulatory requirements.

The IFS Division Environmental and Social Exclusion List is attached in Appendix I of the Framework and the updated version, if any, will be available on the HKMC's website.

The E&S Guidelines reflects international and local Hong Kong E&S standards, including among others, the Equator Principles adopted by project finance banks to assess and manage E&S risks in the projects. The IFS Division is dedicated to adopt the Equator Principles in our projects to the extent practicable. For projects that are co-financed with: (i) other financial institutions that adopt the Equator Principles; (ii) Multilateral Development Banks; and/or (iii) Export Credit Agencies, whose standards are customarily recognised as consistent with the Equator Principles, the IFS Division may align with the E&S standards as agreed with other lenders in the projects.

In addition to the E&S Guidelines, the IFS Division adheres to the Compliance Guidelines to identify, assess and manage the governance risks associated with the borrowers and the projects. In adopting the Compliance Guidelines, the IFS Division seeks to (i) ensure that due diligence has been conducted to consider and identify governance risks and impacts related to the projects; (ii) formulate approaches to manage and mitigate the potential governance risks; (iii) work with borrowers to continuously seek improvement on managing the governance risks, to the extent practicable; and (iv) monitor the implementation of the project and identify any potential changes to the governance related risks and impacts post-commitment.

As for the selection of the potential assets, the IFS Division is responsible for nominating the eligible infrastructure loan assets for the Sustainable Financing Instruments.