



HONG KONG MONETARY AUTHORITY
香港金融管理局

Briefing to the Legislative Council Panel on Financial Affairs

17 November 2023

Discussion Topics



Updates on

- Financial and Economic Environment
- Currency Stability
- Banking Stability
- Financial Infrastructure
- Hong Kong as an International Financial Centre
- Investment Environment and Performance of the Exchange Fund
- The Hong Kong Mortgage Corporation Limited



Financial and Economic Environment

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Global economic growth forecasts



(% year-on-year) **Real GDP Growth**

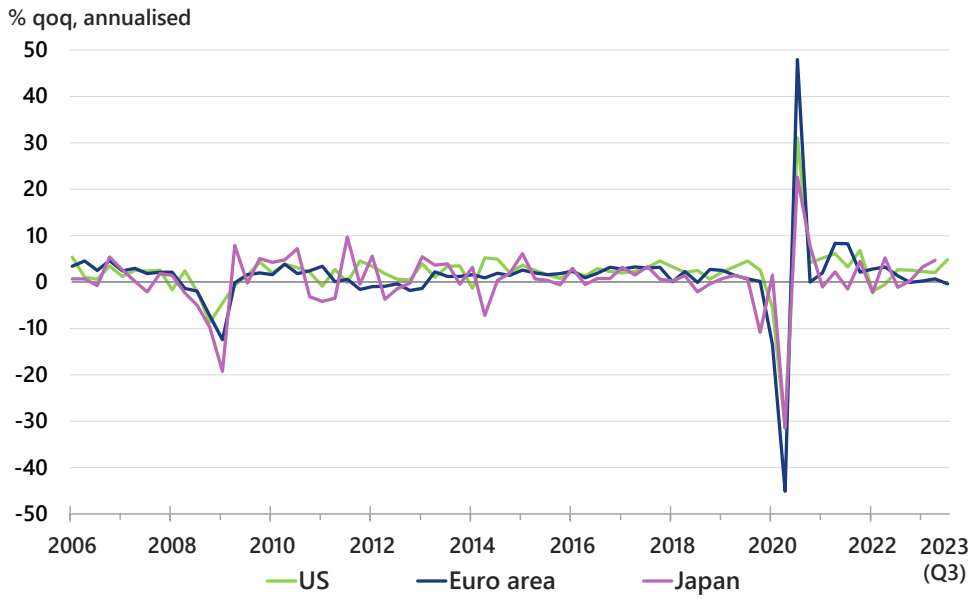
	2022	2023 Forecasts	2024 Forecasts
US	1.9	2.2	0.9
Euro area	3.3	0.5	0.6
Japan	1.0	1.9	0.9
Asia (ex-Japan)	3.6	4.6	4.4
Mainland China	3.0	5.0	4.4
Hong Kong	-3.5	3.2 (*)	N.A.

(*) Latest forecast by the HKSAR Government on 10 November 2023.

Sources: October 2023 Consensus Forecasts and the Office of the Government Economist, HKSAR

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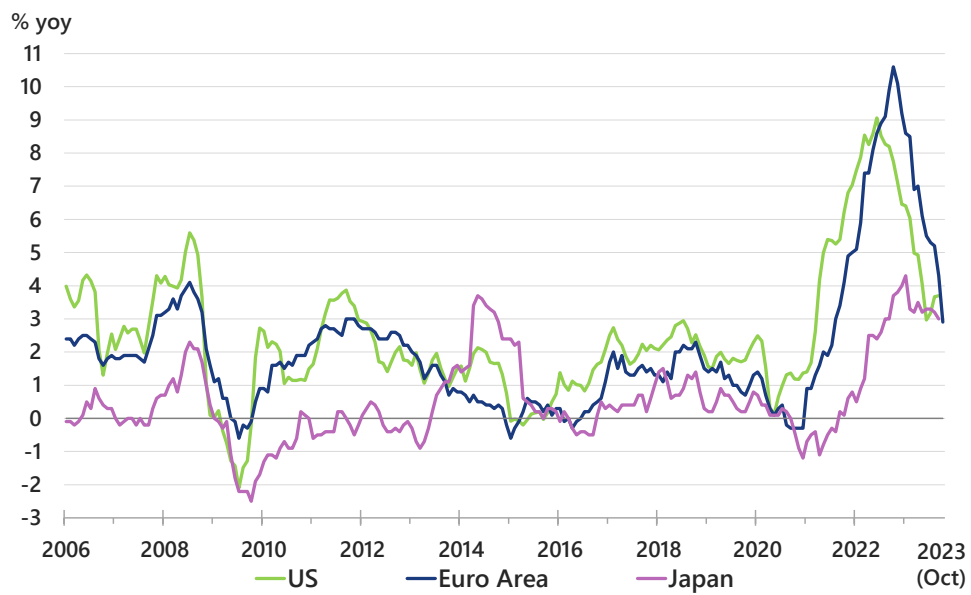
Real GDP growth in major economies



Source: CEIC

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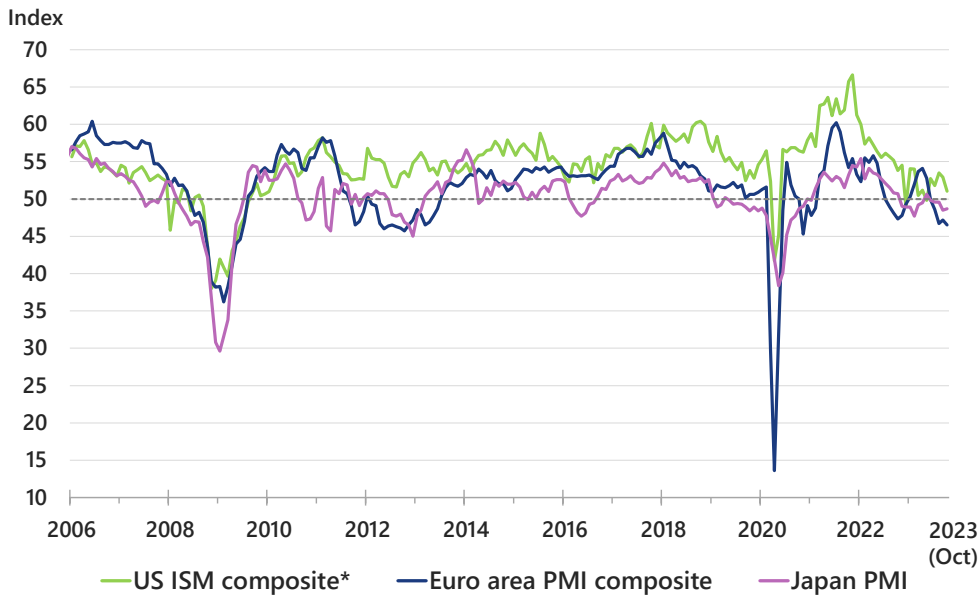
Headline inflation in major economies



Source: CEIC

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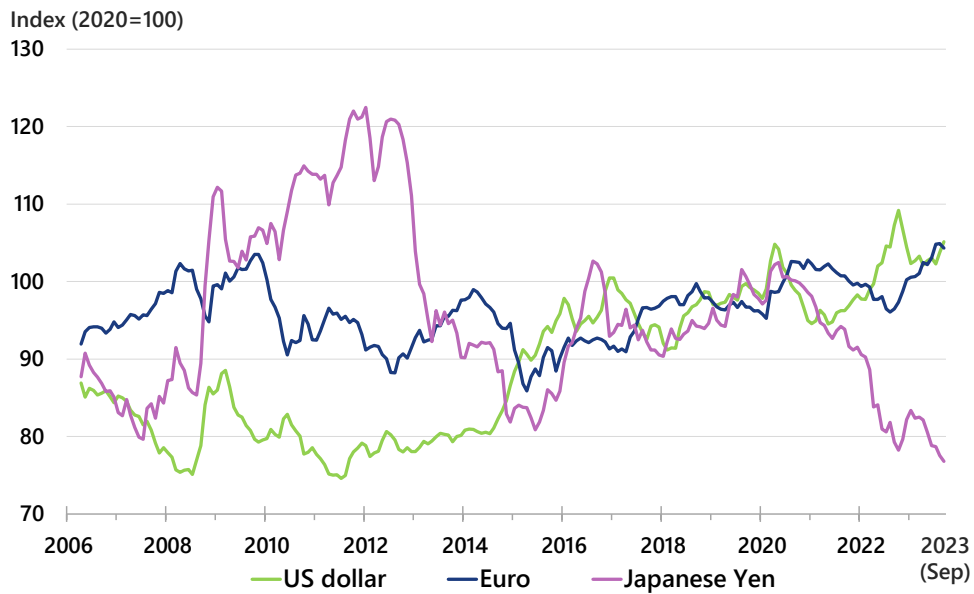
Purchasing Managers' Index in major economies



* Weighted average of the ISM Manufacturing and Services PMIs
Source: CEIC

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Nominal effective exchange rate index of major currencies



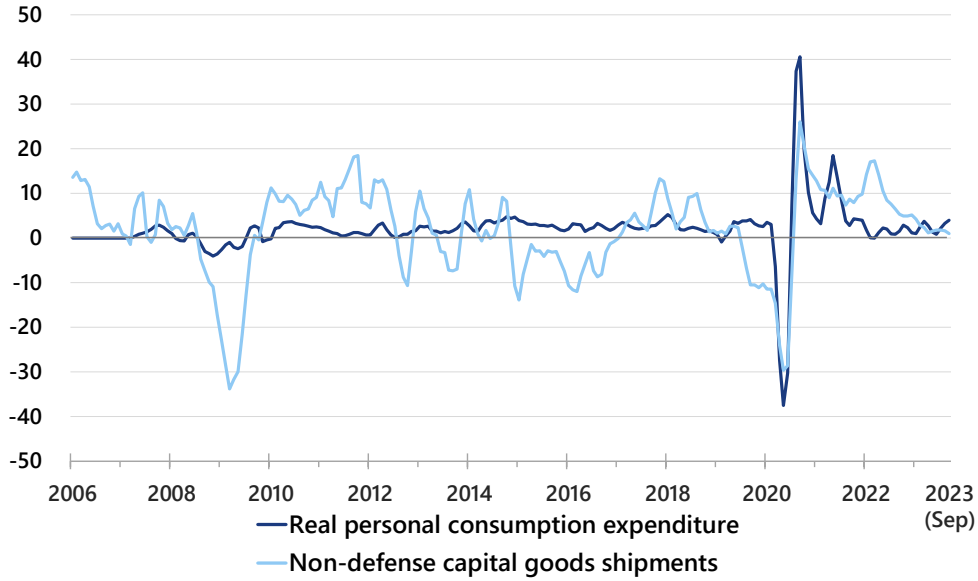
Source: CEIC

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US: Consumption growth and business investment activity



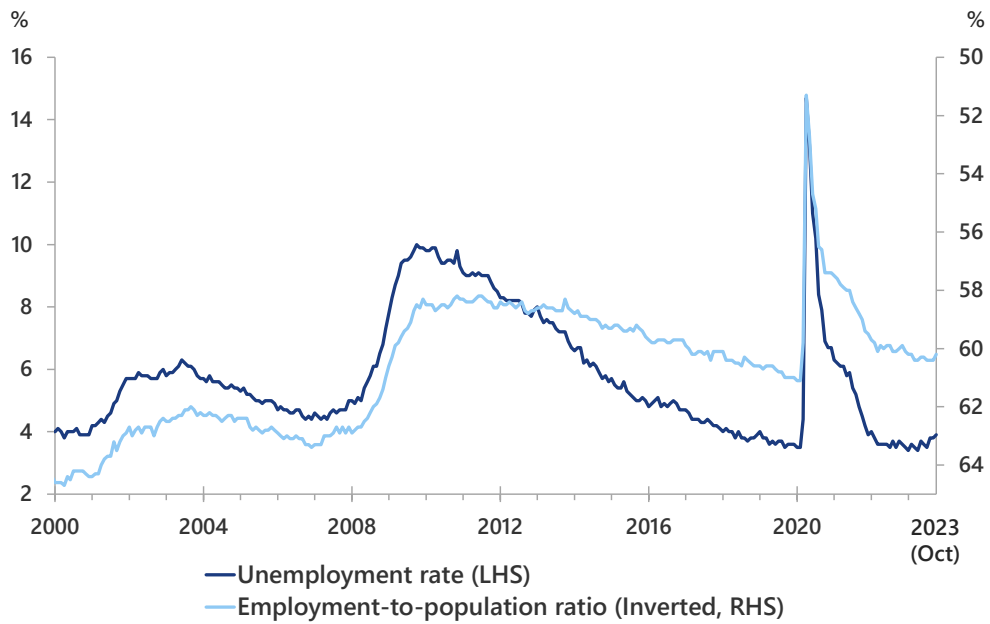
% 3m-on-3m, annualised



Source: CEIC

9

US: Labour market situation



Source: CEIC

10

US: Labour force participation rate



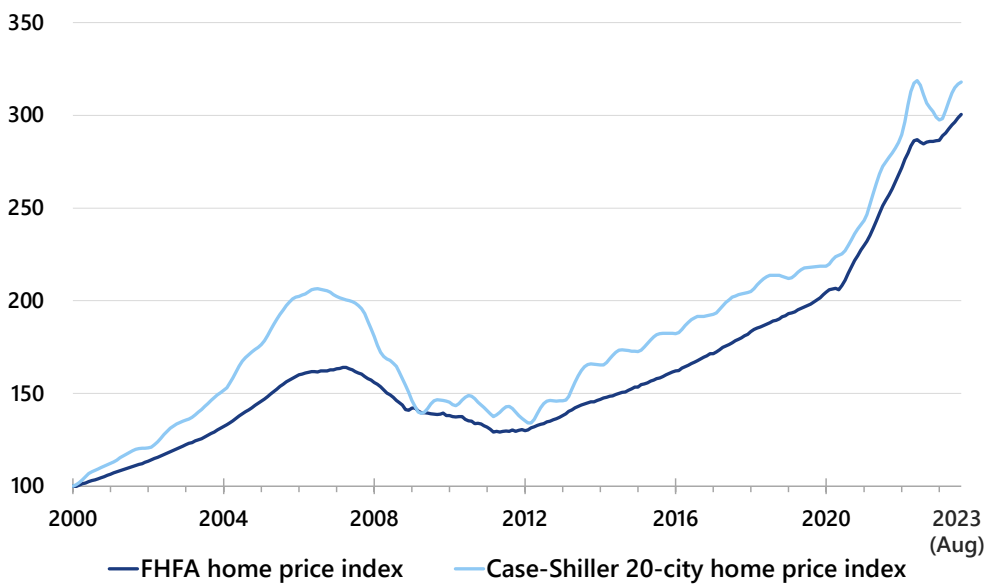
Source: CEIC

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US: Home prices



Index (Jan 2000=100)



Sources: CEIC and Datastream

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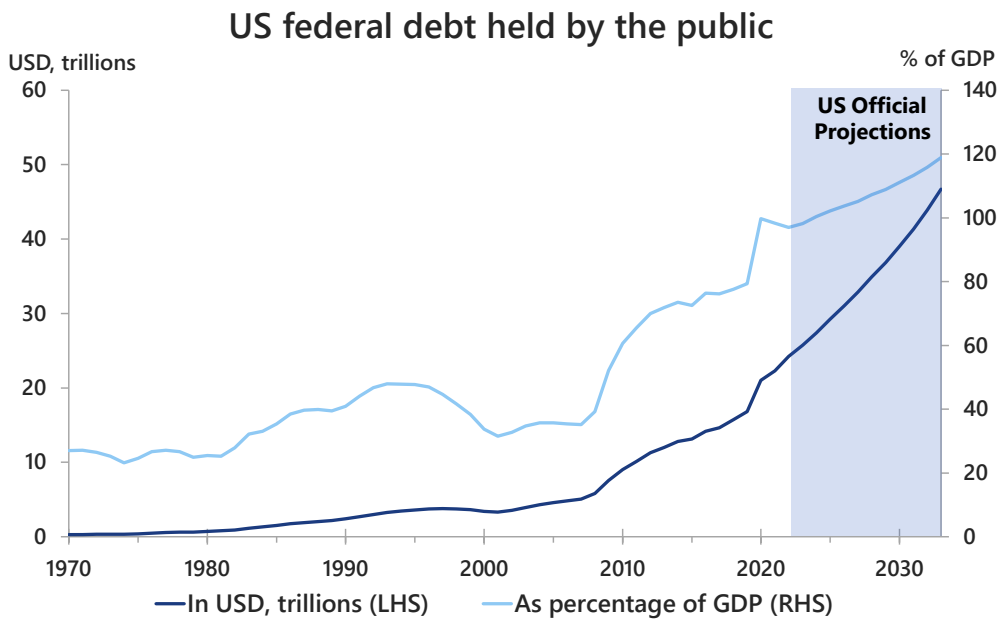
US: Home sales



Sources: CEIC and Datastream

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US: Federal government debt



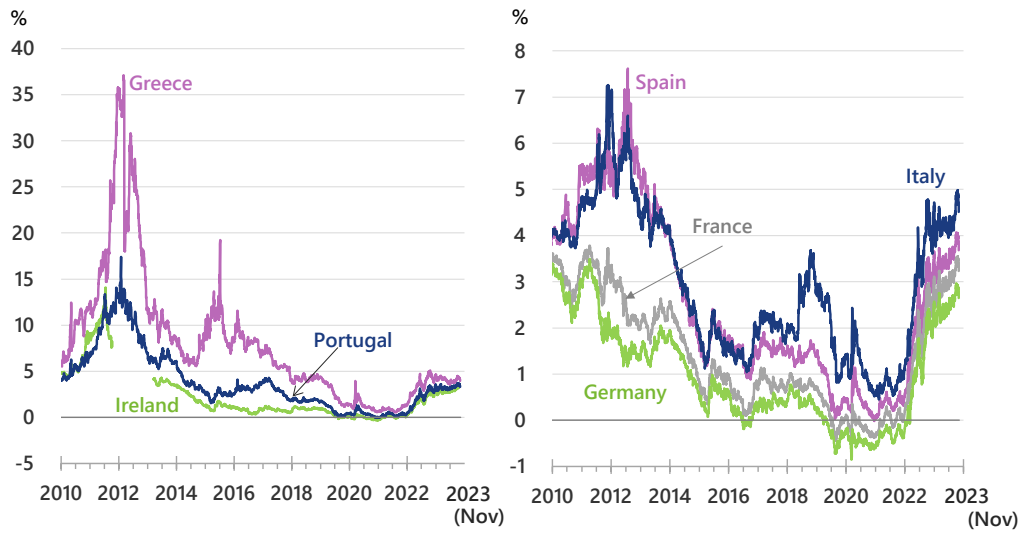
Sources: CEIC and Congressional Budget Office

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Euro area: Sovereign bond yields



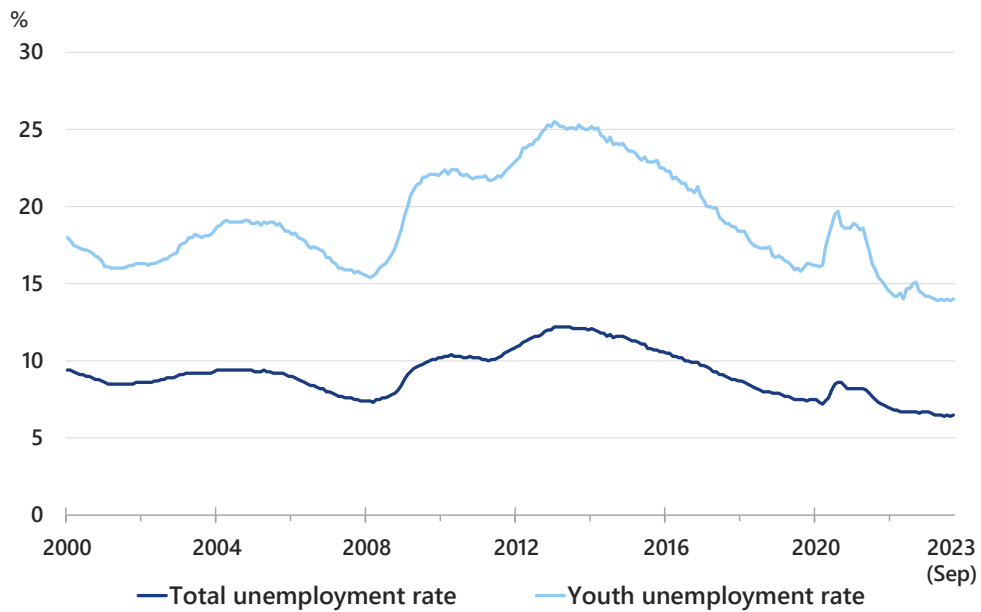
10-year sovereign bond yield



Note: 10-year Irish sovereign bond yield data is not available between 12 October 2011 and 14 March 2013.
Source: Bloomberg

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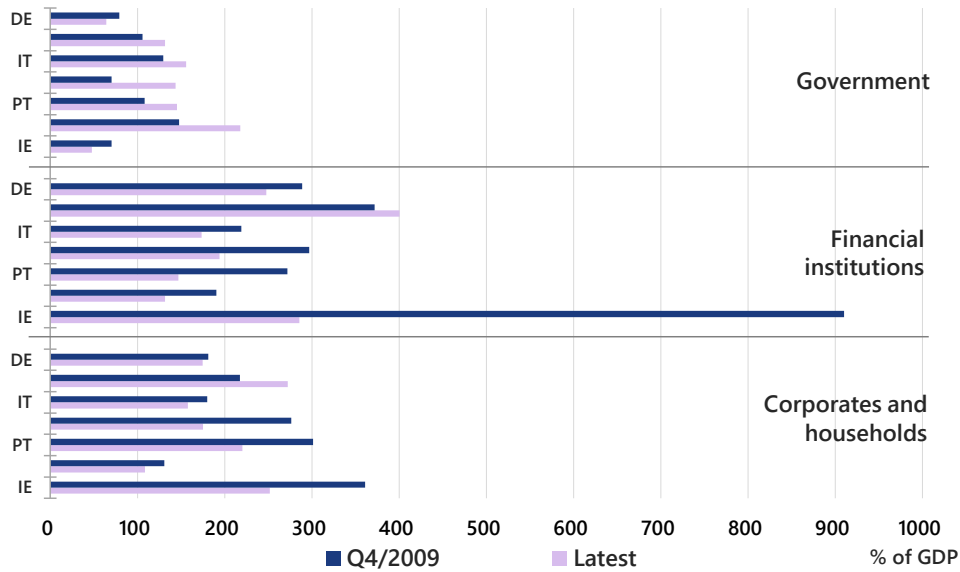
Euro area: Unemployment rate



Source: Bloomberg

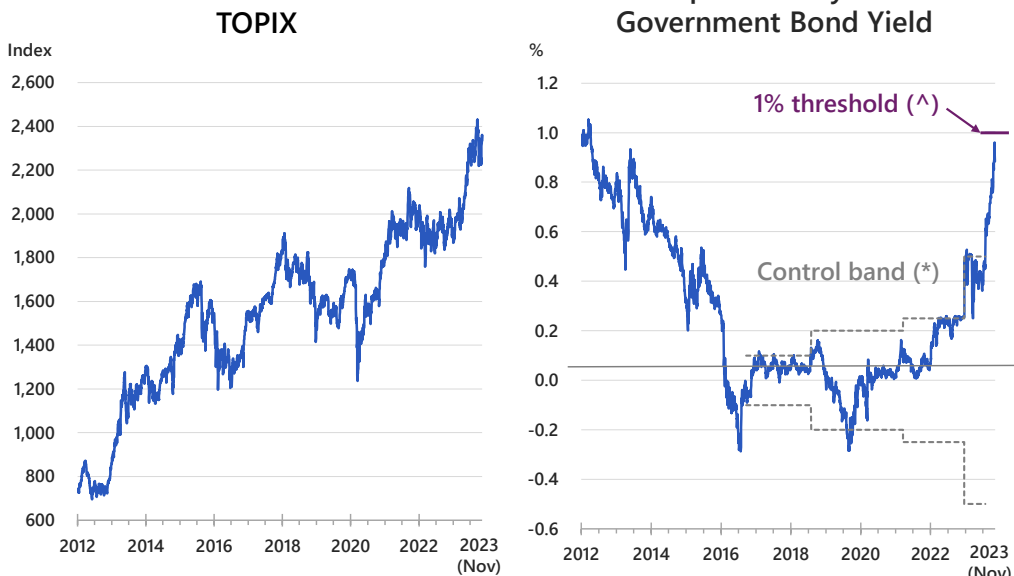
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Euro area: Overall indebtedness



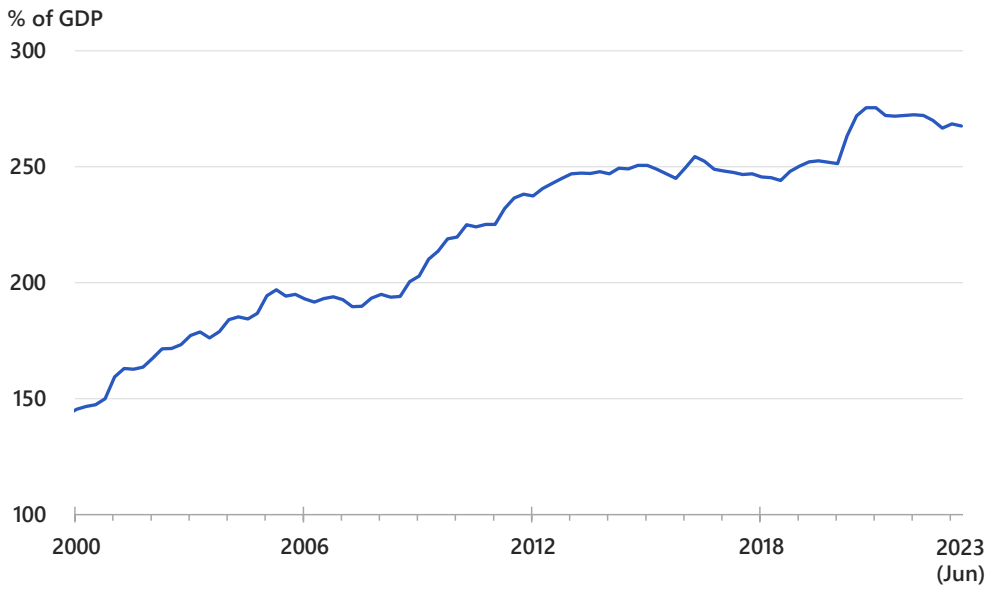
Note: DE – Germany, FR – France, IT – Italy, ES – Spain, PT – Portugal, GR – Greece, IE – Ireland
 The latest figures are up to Q2/2023.
 Source: European Central Bank

Japan: Financial markets



(*) The control band for Japanese 10-year government bond yield was -0.5% to 0.5% until 28 Jul 2023
 (^) As a cap between end-Jul and end-Oct 2023; becoming a reference upper bound since Nov 2023
 Source: Bloomberg

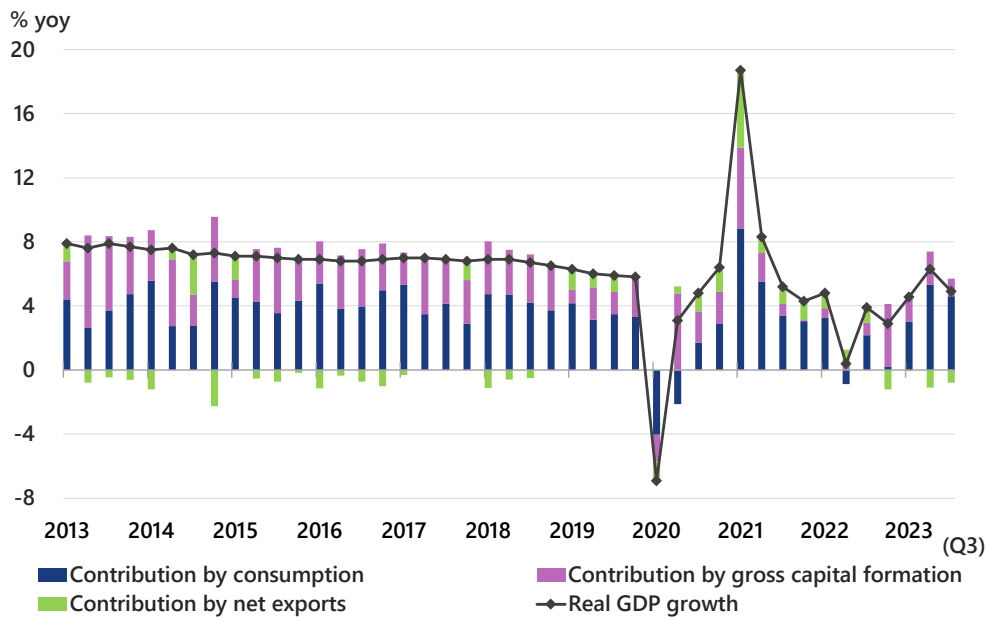
Japan: Public debt



Sources: Bank of Japan and CEIC

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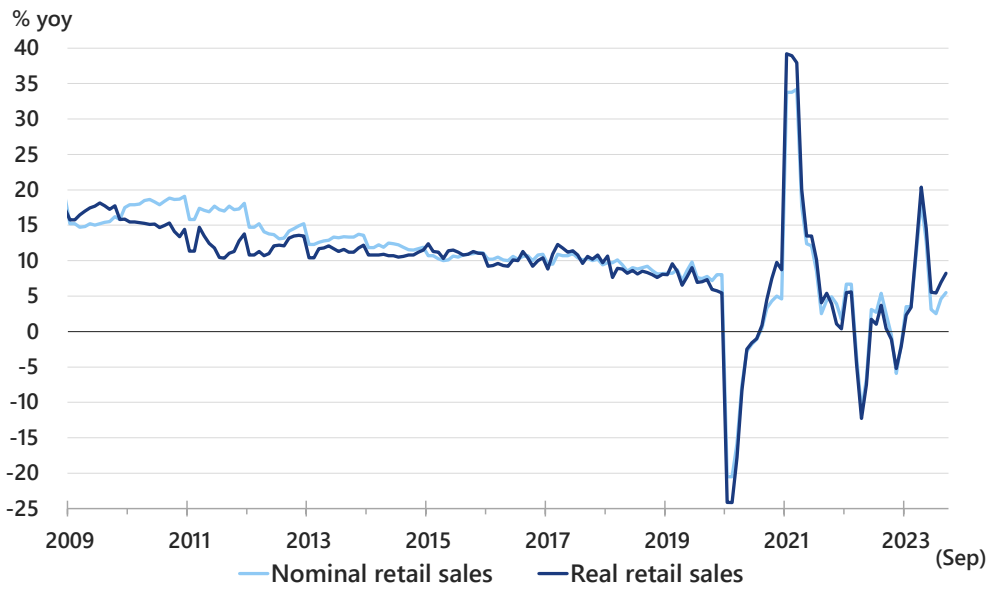
Mainland China: Real GDP growth



Source: CEIC

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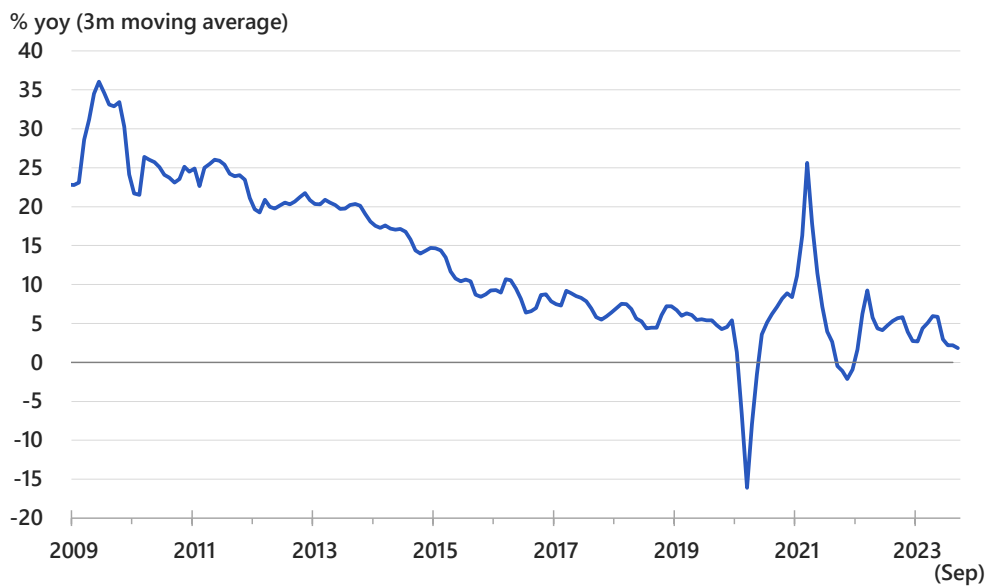
Mainland China: Retail sales



Note: January and February figures are the average annual growth rate for the first two months of the year.
Sources: WIND and HKMA staff estimates

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Mainland China: Fixed asset investment



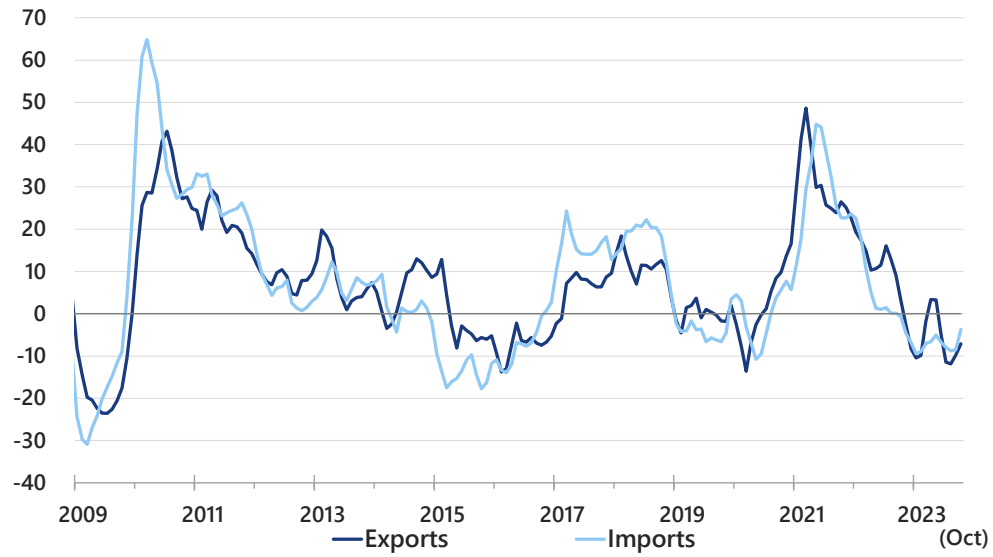
Sources: CEIC and HKMA staff estimates

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Mainland China: Import and export growth



% yoy (3m moving average)



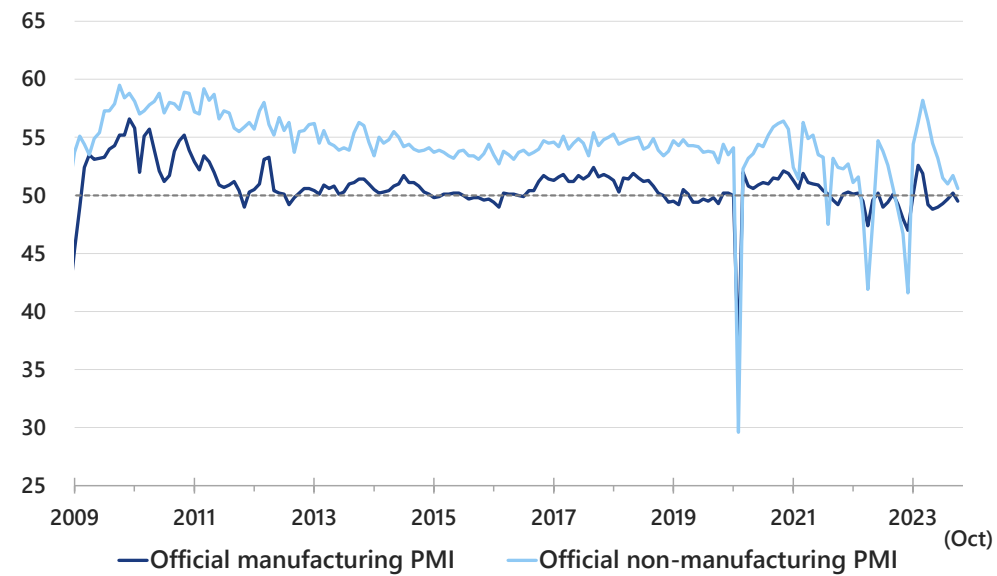
Sources: CEIC and HKMA staff estimates

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Mainland China: Purchasing Managers' Index



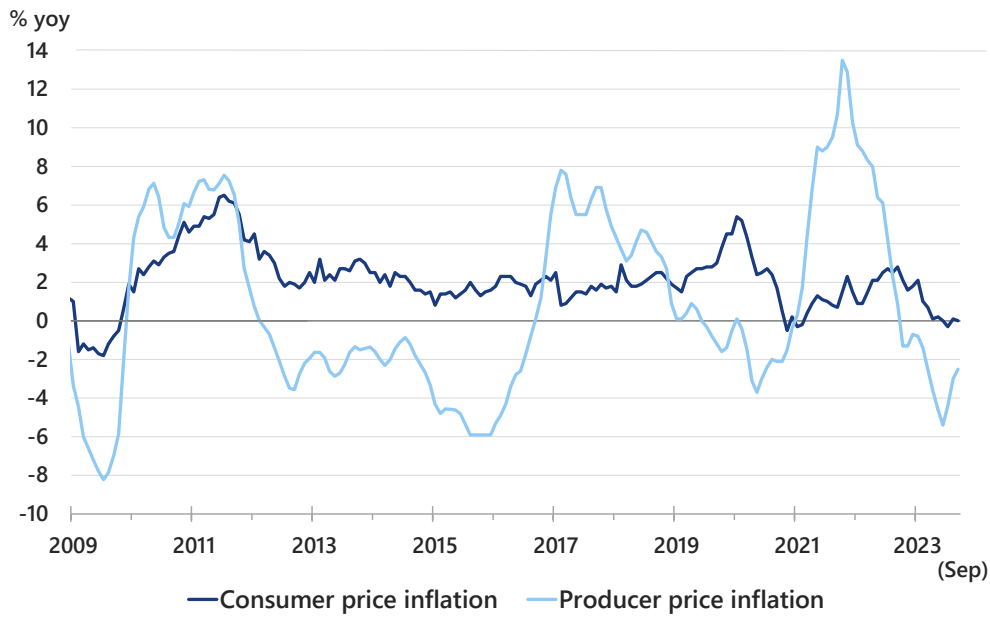
Index



Source: CEIC

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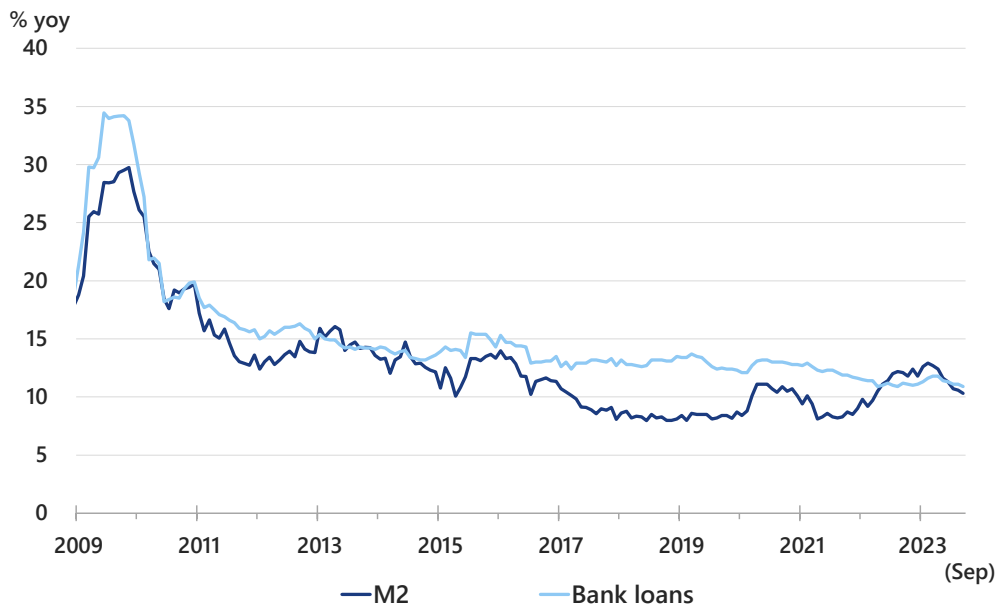
Mainland China: Inflation



Source: CEIC

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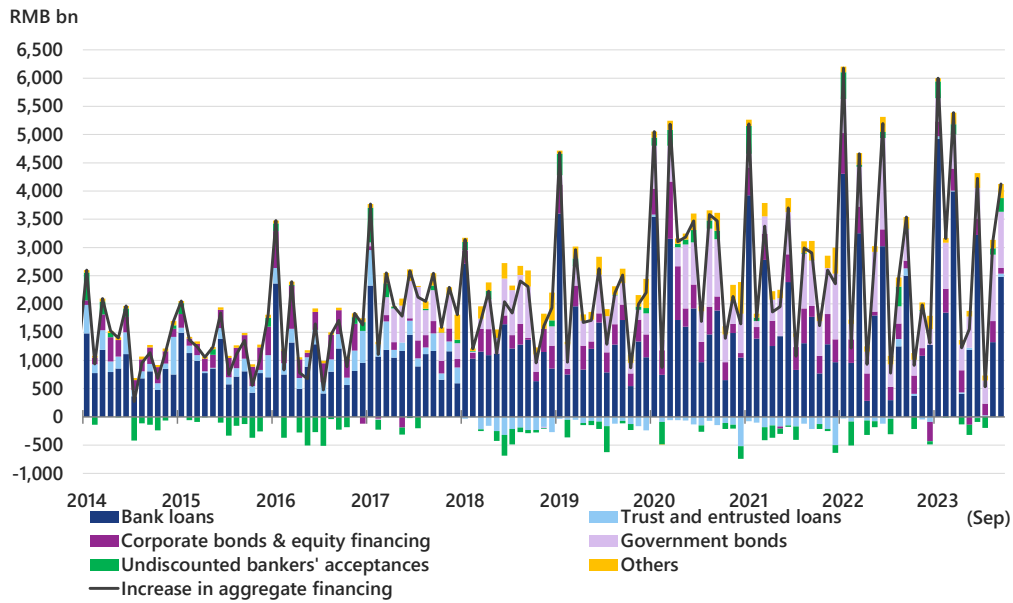
Mainland China: Money and loan growth



Source: CEIC

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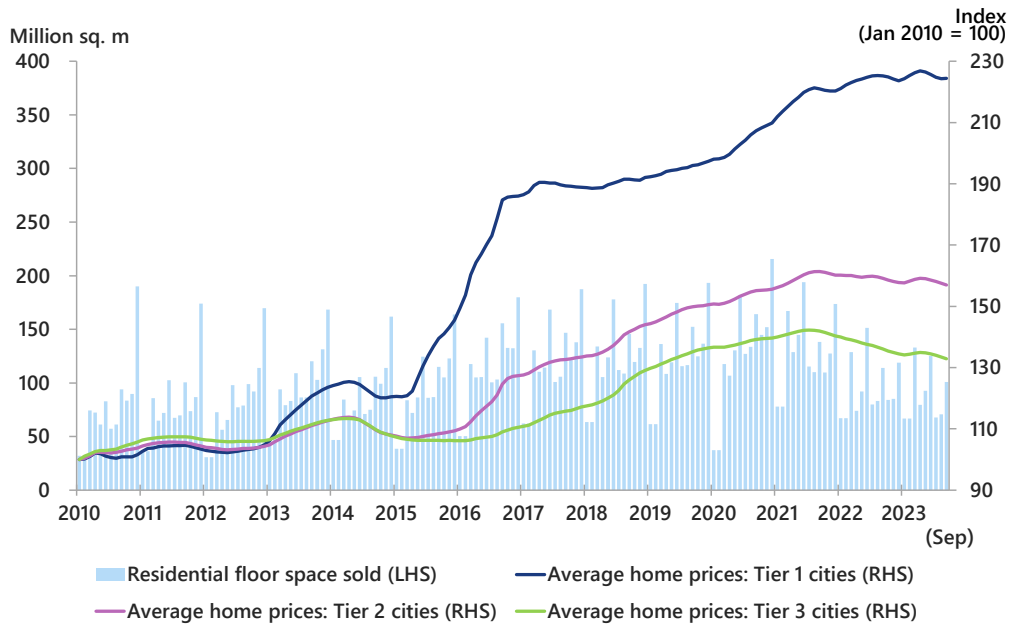
Mainland China: Aggregate financing flow



Note: "Others" primarily include loans written off and asset-backed securities of depository financial institutions.
Sources: CEIC and HKMA staff estimates

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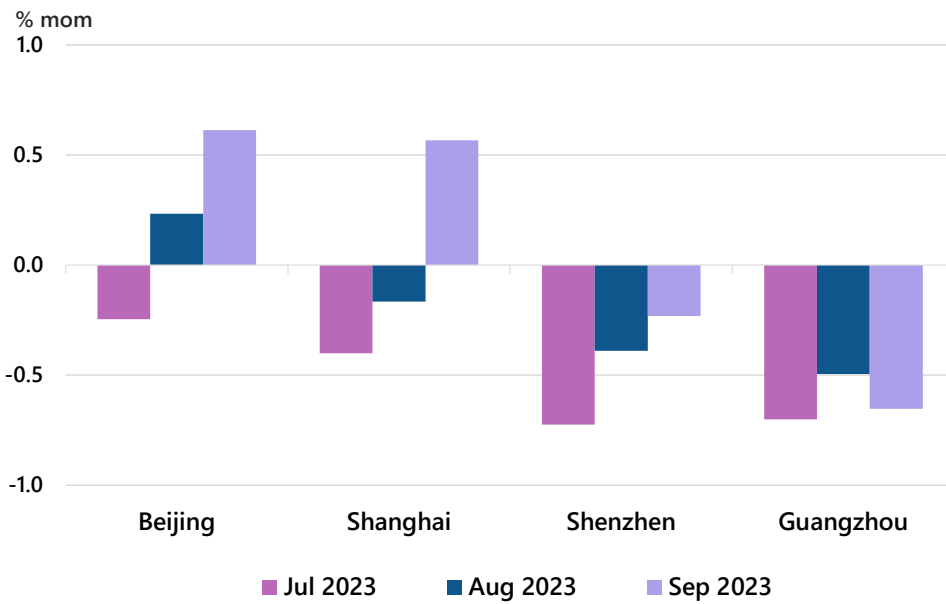
Mainland China: Property price and transaction volume



Sources: CEIC and HKMA staff estimates

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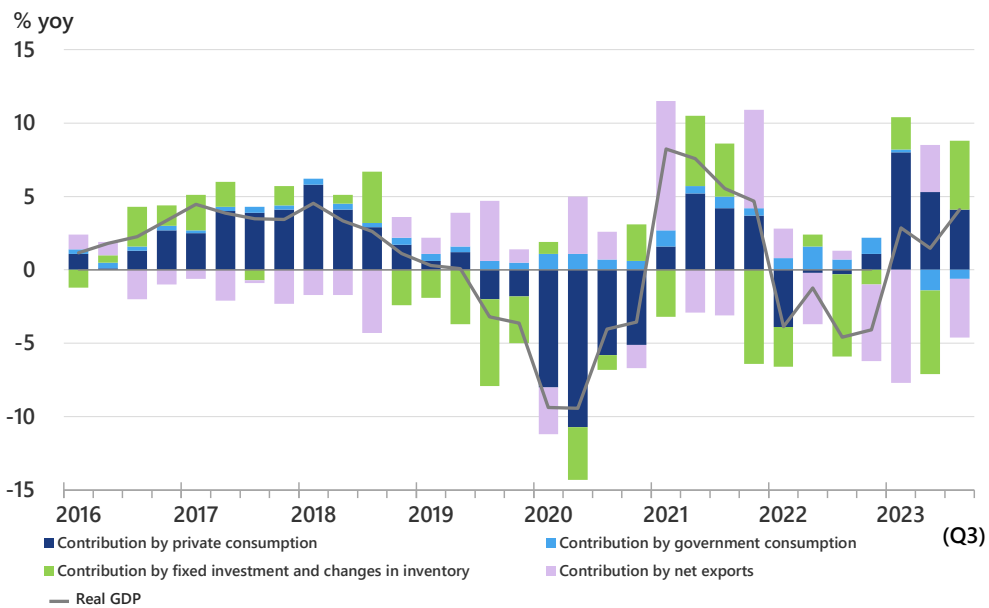
Mainland China: Housing price changes in major cities



Sources: CEIC, WIND and HKMA staff estimates

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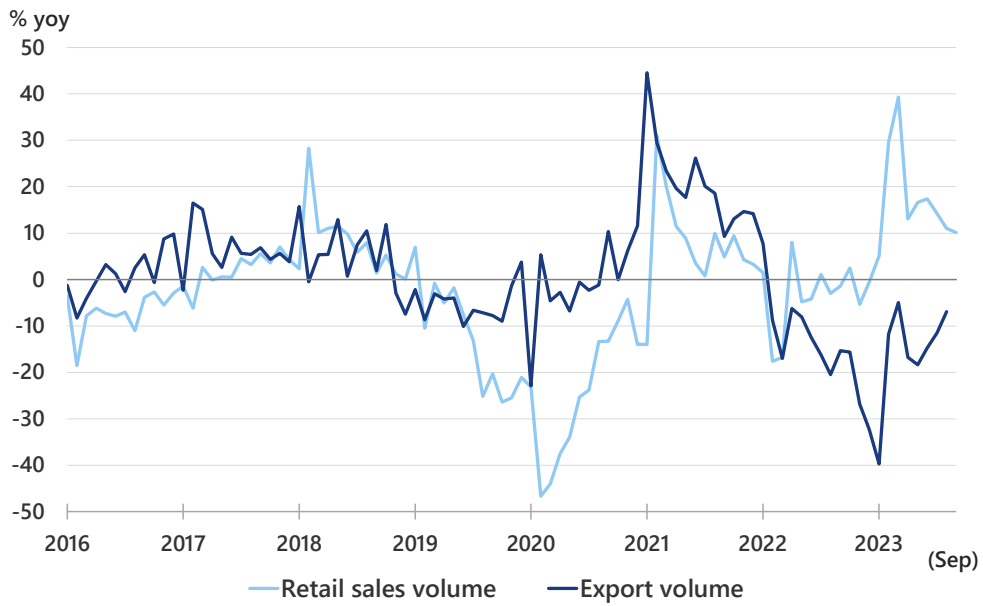
Hong Kong: Real GDP growth



Source: C&SD

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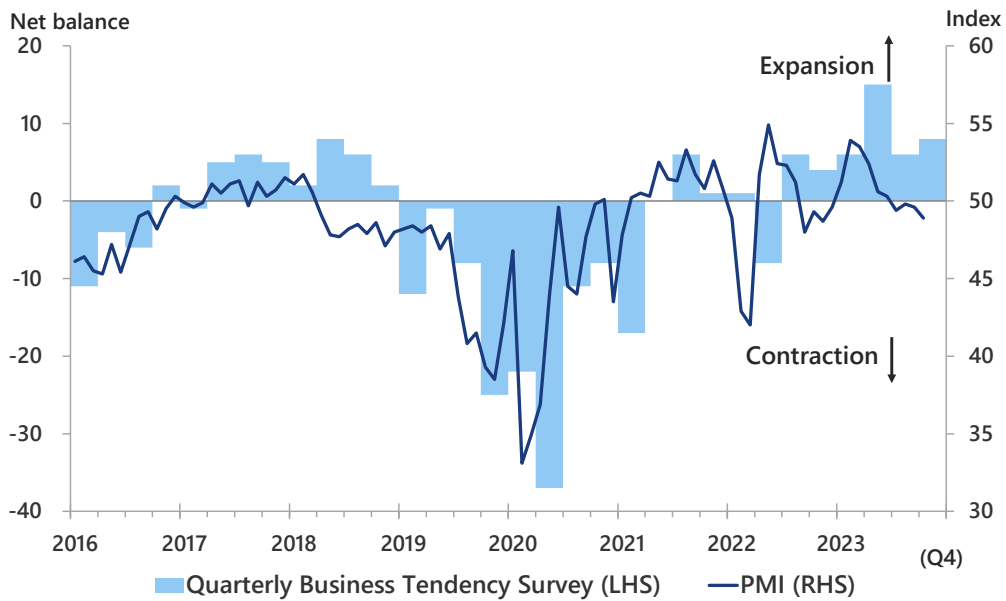
Hong Kong: Economic activity



Source: C&SD

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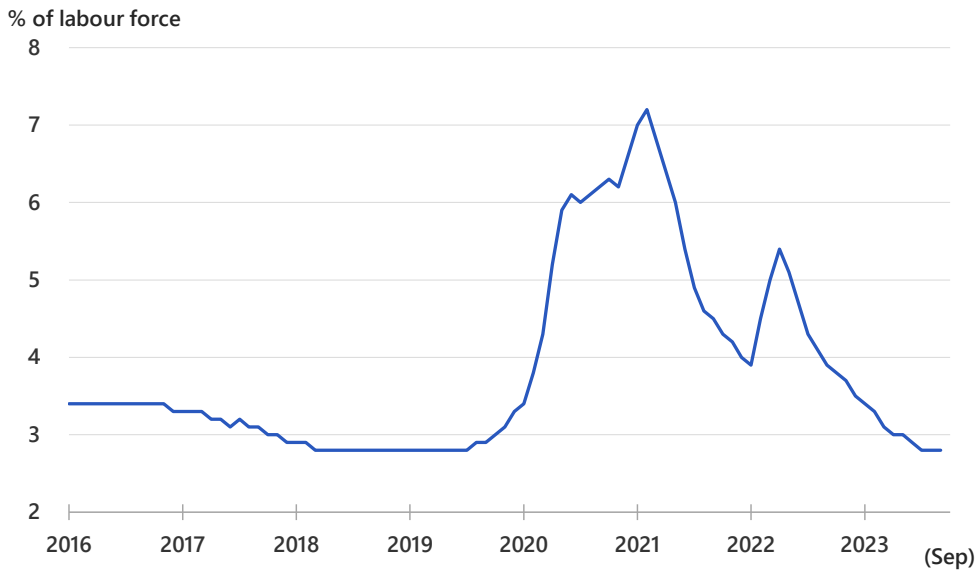
Hong Kong: Business outlook



Sources: C&SD and S&P Global

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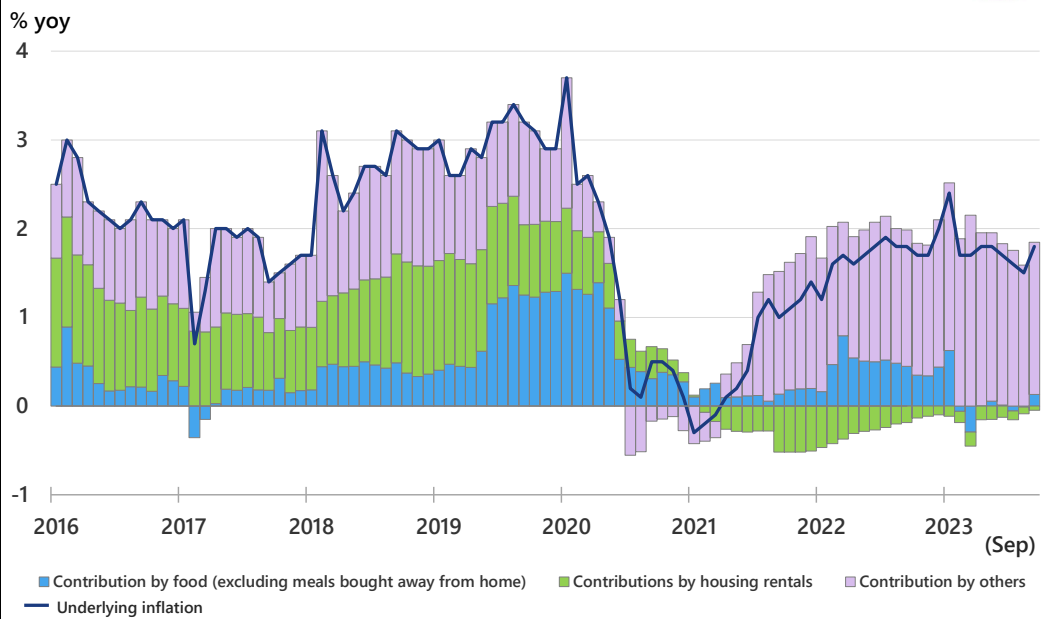
Hong Kong: Unemployment rate



Source: C&SD

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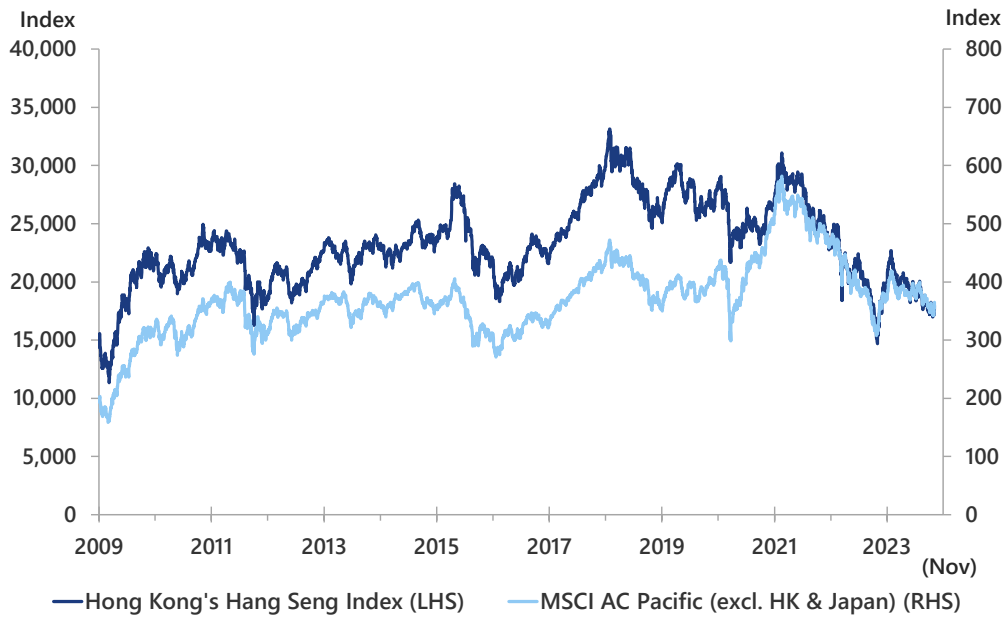
Hong Kong: Inflation



Sources: C&SD and HKMA staff estimates

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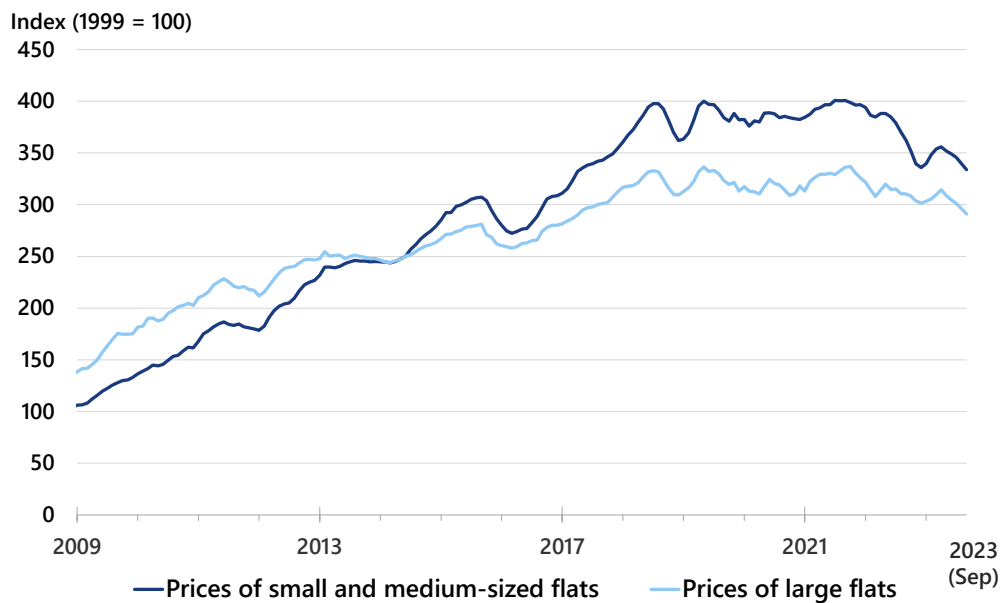
Hong Kong: Equity market



Source: Bloomberg

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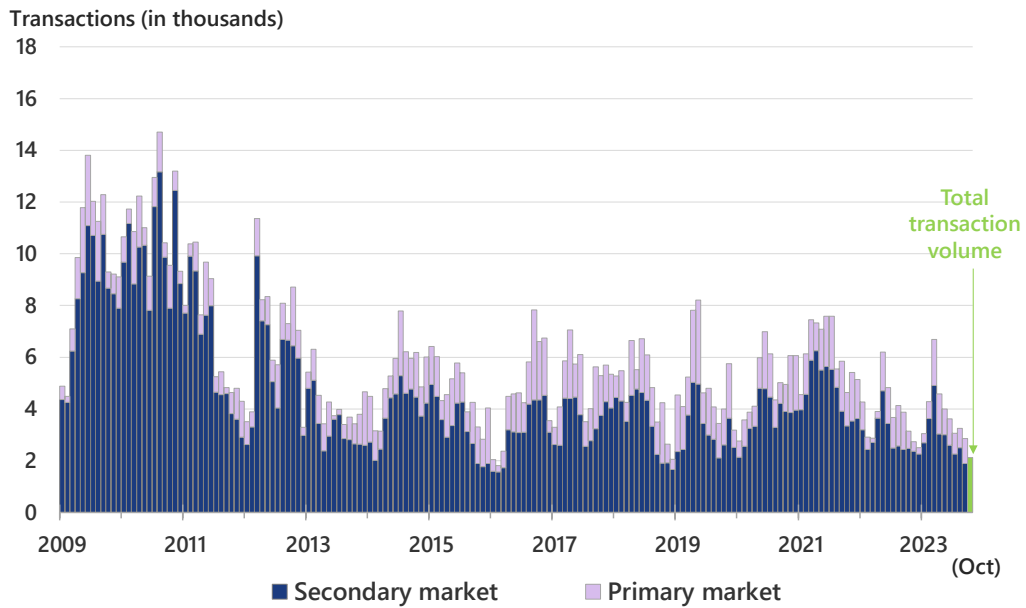
Hong Kong: Residential property prices



Source: Rating and Valuation Department

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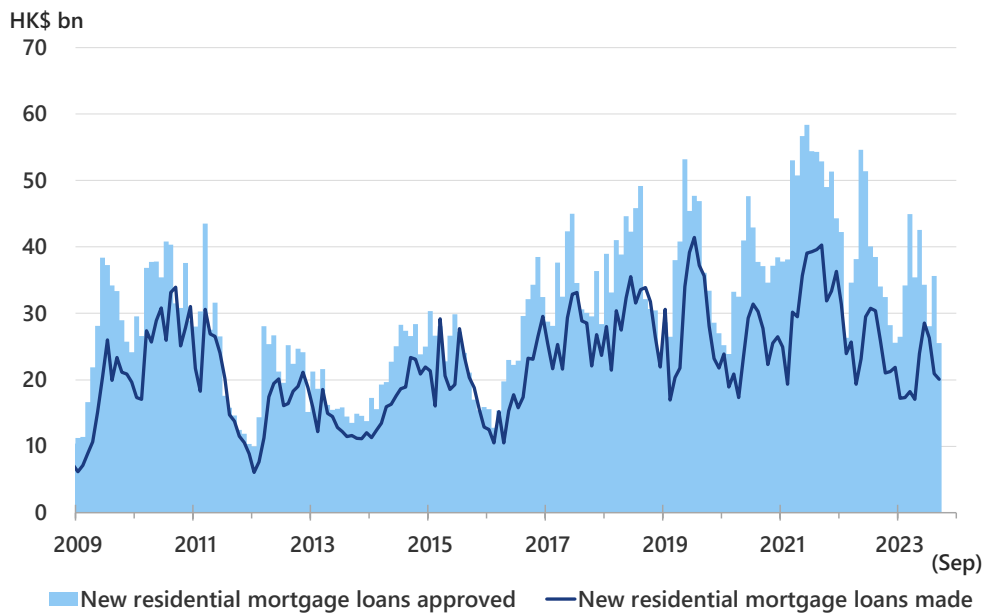
Hong Kong: Transaction volume in the primary and secondary residential property markets



Source: The Land Registry

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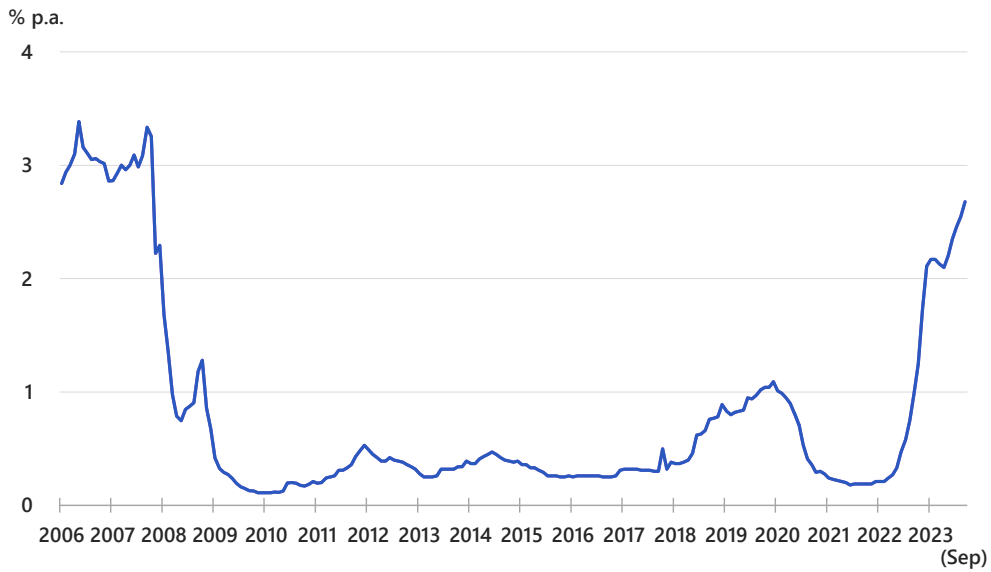
Hong Kong: New residential mortgage loans



Source: HKMA

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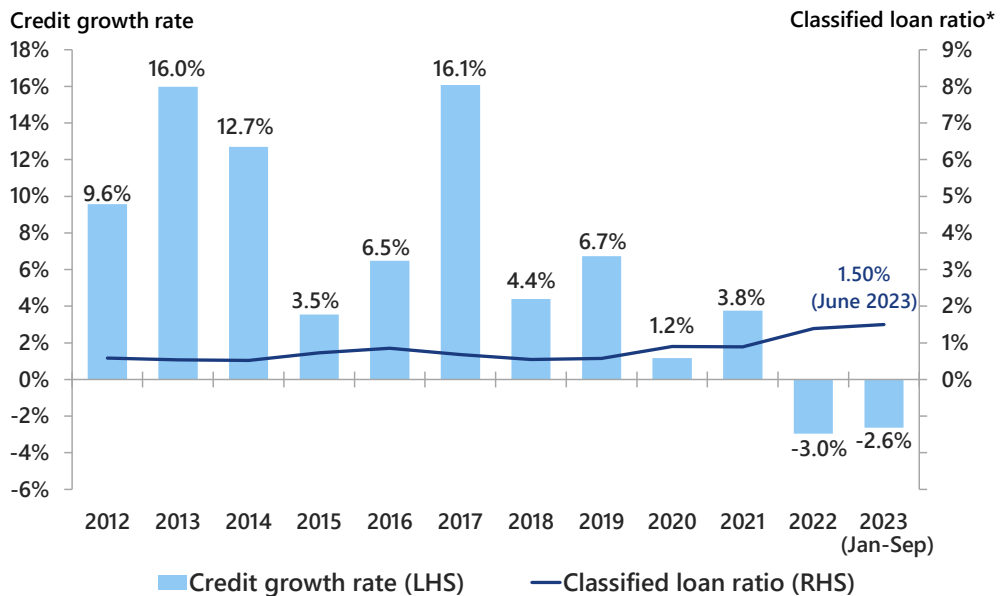
Hong Kong: Composite interest rate



Source: HKMA

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Hong Kong: Loan growth and asset quality



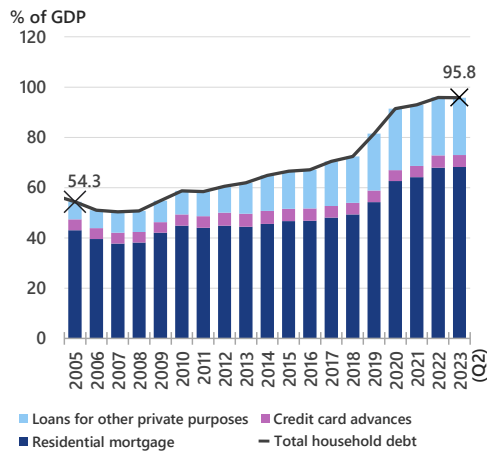
* Classified loan ratio of all authorized institutions
Source: HKMA

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Hong Kong: Household debt

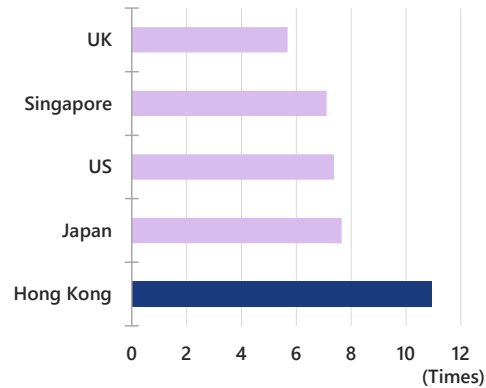


Gross household debt



Note: The majority of the household debts are residential mortgage loans, which are governed by the macroprudential policy framework, as well as collateralised loans to wealth management customers against financial assets.
Source: HKMA

Household net worth-to-liabilities ratio

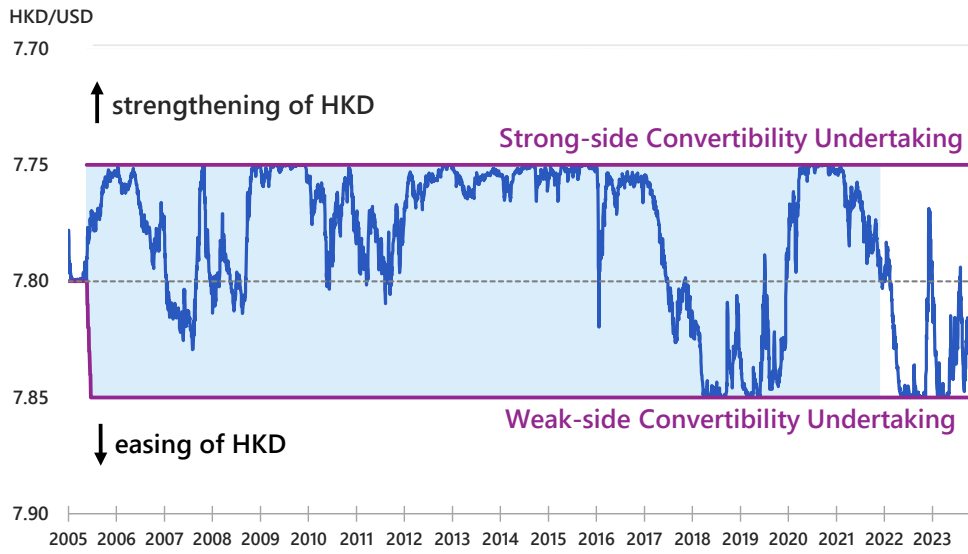


Notes: (1) Household net worth (or net household assets) is the difference between gross household assets and gross household liabilities. (2) Taking Hong Kong as an example, the above number means that Hong Kong household net worth is over 10 times its gross household liabilities. (3) The figures for Singapore, the UK and the US refer to those at end-2022, while figures for other economies (including Hong Kong) refer to those at end-2021.
Sources: HKMA staff estimates and statistical agencies or central banks of selected economies

Currency Stability

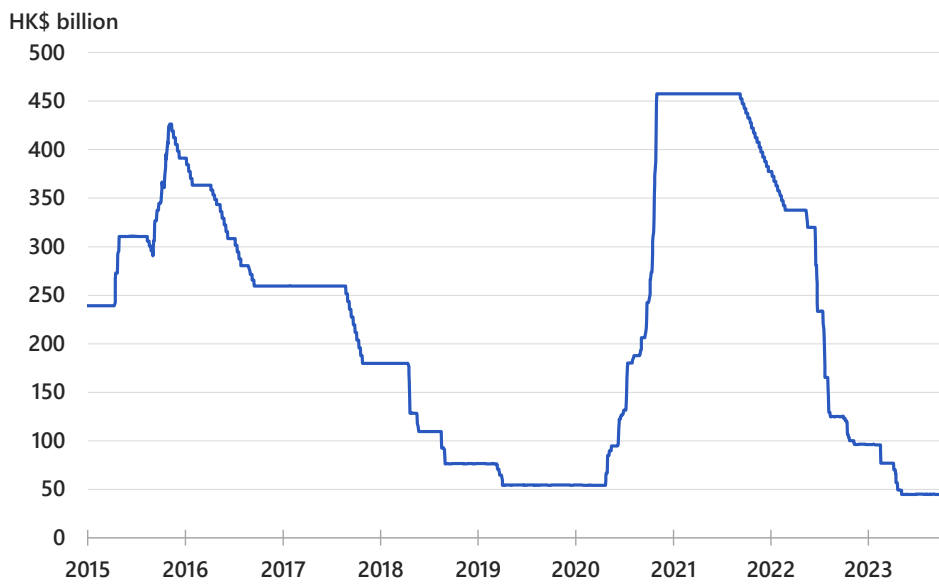


Hong Kong dollar spot exchange rate



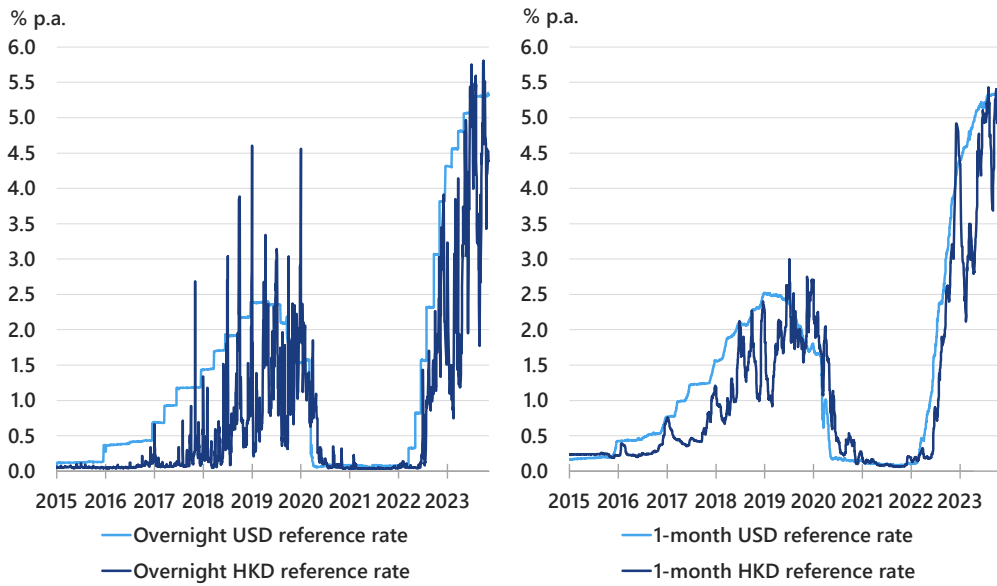
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Aggregate Balance



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Interest rates



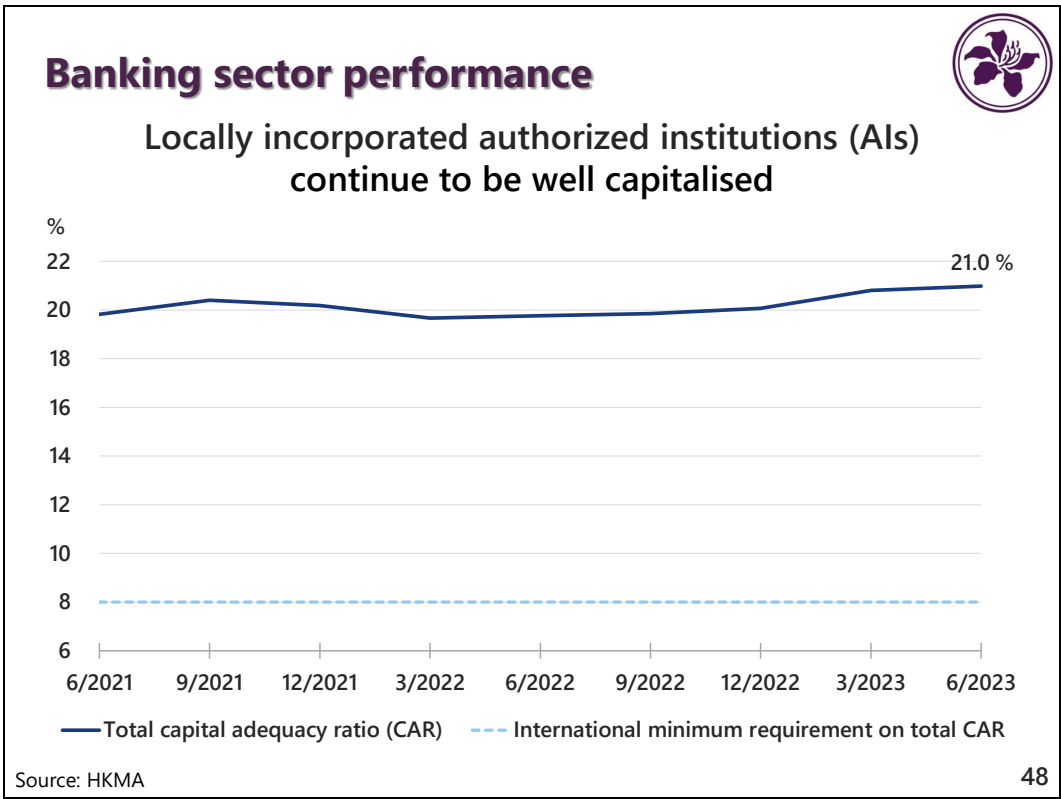
Note: USD reference rates refer to SOFR and 1-month CME Term SOFR since 1 July 2023, following the USD LIBOR transition. Before that, HKD and USD reference rates refer to the respective HKD HIBOR and USD LIBOR fixings.

12-month Hong Kong dollar forward points

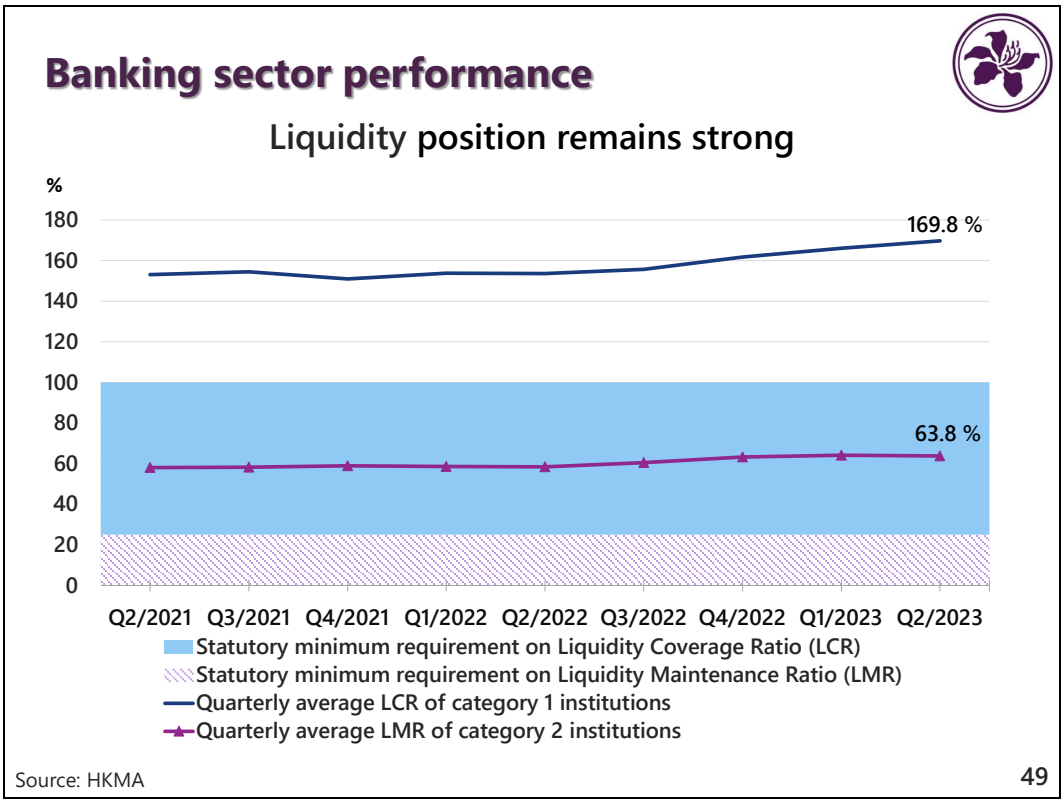




Banking Stability



- The banking sector remains well capitalised. The consolidated total CAR of locally incorporated AIs stood at 21% at end-June 2023, well above the international minimum requirement of 8%.

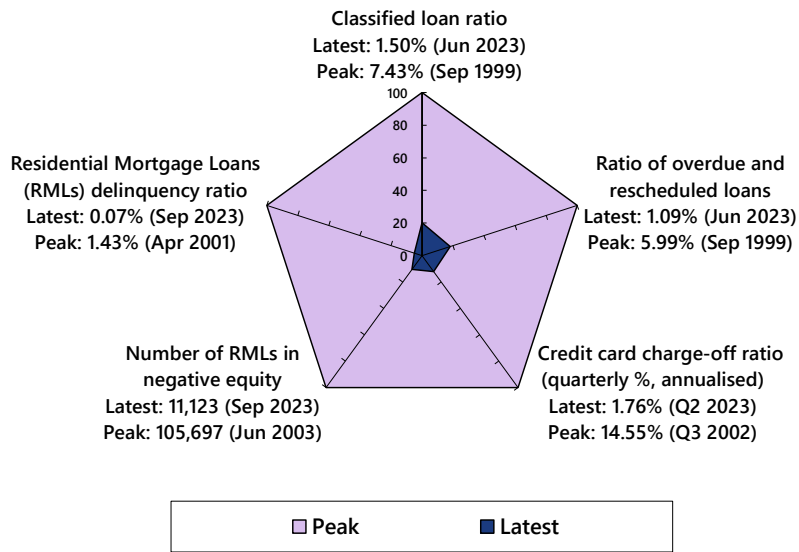


- In the second quarter of 2023, the quarterly average LCR of category 1 institutions was 169.8%, well above the statutory minimum requirement of 100%. For category 2 institutions, their quarterly average LMR was 63.8% during the same period, also well above the statutory minimum requirement of 25%.

Banking sector performance



Asset quality stays healthy



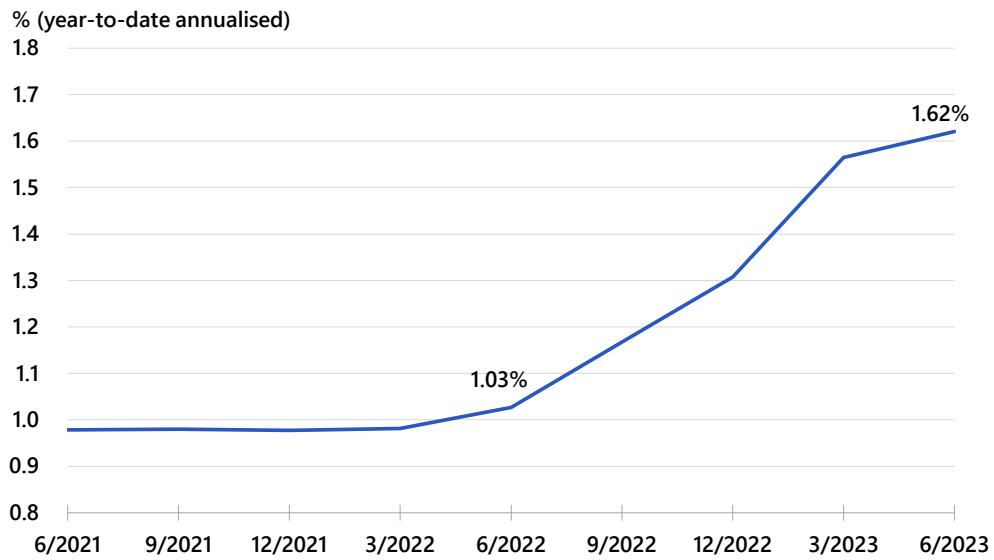
Source: HKMA

- The classified loan ratio of the banking sector rose to 1.50% at end-June 2023 from 1.45% at end-March 2023. The overall asset quality of banks remains healthy.

Banking sector performance



Net interest margin (NIM) widened



Source: HKMA

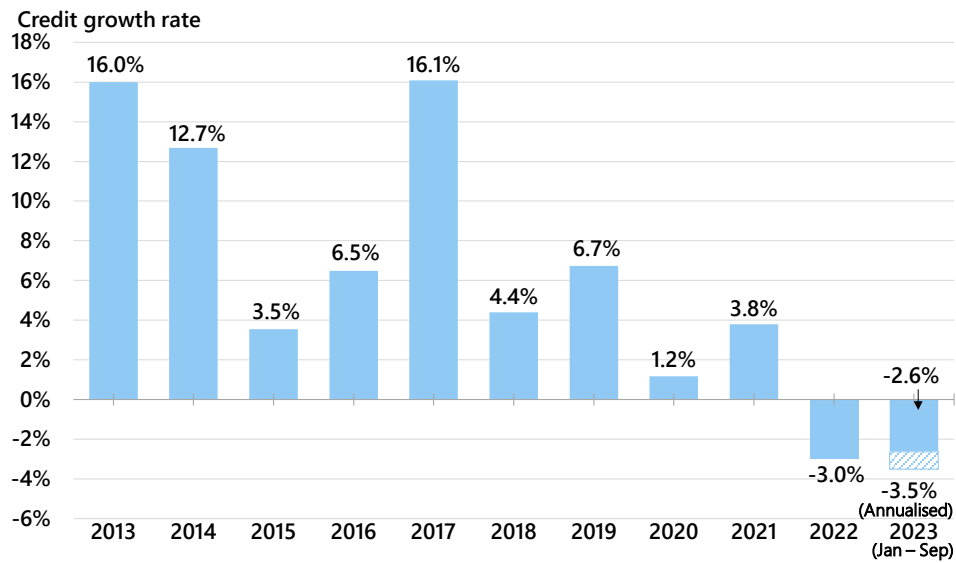
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- The NIM of retail banks' Hong Kong businesses widened to 1.62% in the first half of 2023 compared with 1.03% in the same period last year.

Banking sector performance



Loan demand weakened



Source: HKMA

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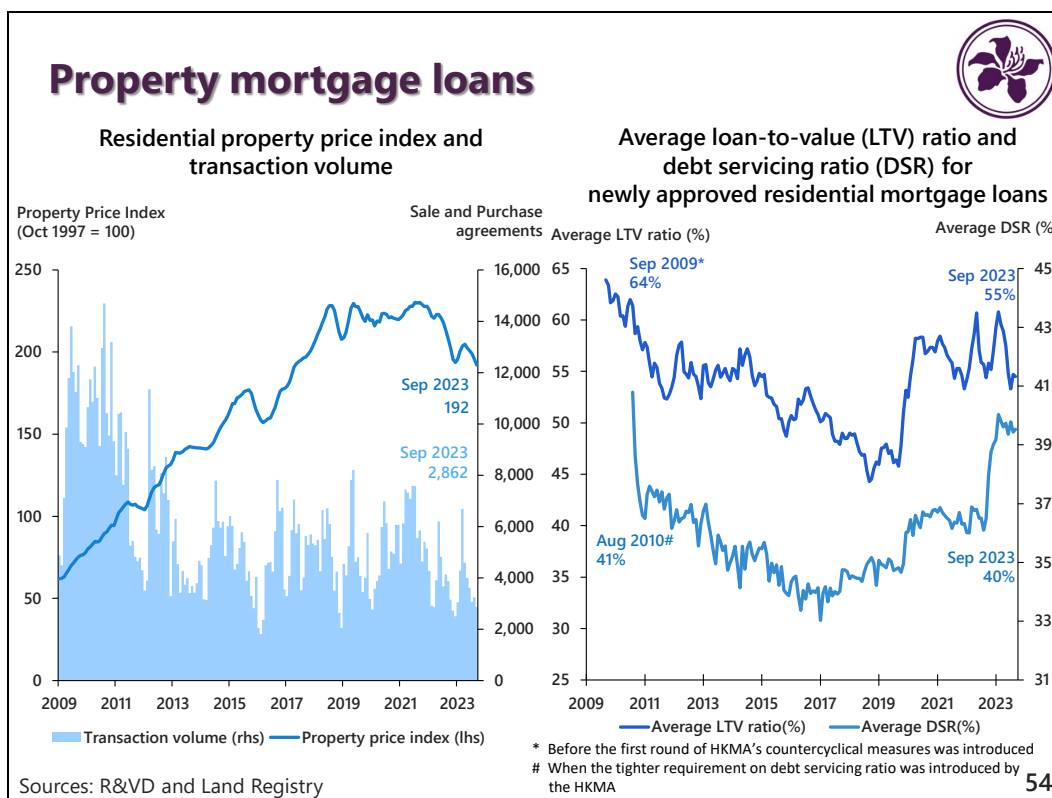
- Total loans decreased by 2.6% in the first three quarters of 2023, or -3.5% on an annualised basis, mainly reflecting weaker loan demand amid higher borrowing costs and a weakened global economic outlook.

Supporting SMEs



Pre-approved Principal Payment Holiday Scheme

- With COVID-19 out of the way, exiting the Scheme in an orderly manner
 - Partial principal repayment options enhanced to facilitate return to normal repayment
 - Continue to offer principal moratorium to corporates still in need of support on a case by case basis



Latest statistics on RMLs

	Monthly average in 2021	Monthly average in 2022	Apr 2023	May 2023	Jun 2023	Jul 2023	Aug 2023	Sep 2023
Number of sale and purchase agreements	6,191	3,754	4,583	4,003	3,613	3,065	3,247	2,862
Number of new RML applications	14,060	9,524	8,368	9,530	8,250	8,086	8,617	8,787
Number of new RMLs approved	10,121	7,413	7,132	8,591	7,079	5,754	7,042	5,130

Latest statistics on residential property prices

Property price index		Period	Property price index
Rating and Valuation Department (10/1997=100)	Latest position	9/2023	192.1
	Recent peak	9/2021	230.2
	Peak in 1997	10/1997	100.0
Centaline (6/7/1997=100)	Latest position	29/10/2023	153.7
	Recent peak	8/8/2021	191.3
	Peak in 1997	19/10/1997	103.5



Property mortgage loans



- Implemented the 10th round of countercyclical macroprudential measures for property mortgage loans on 7 July 2023. Key adjustments include:
 - Adjusting the maximum loan-to-value (LTV) ratio for self-occupied residential properties to 70% for properties valued at HK\$15 million or below; and 60% for properties valued at more than HK\$15 million and up to HK\$30 million
 - Increasing the maximum LTV ratio for non-residential properties to 60% from 50%
 - Increasing the maximum LTV ratio for net worth-based property mortgage loans to 50% from 40%

International standards implementation



Basel III final reforms

- Amendments to Banking (Capital) Rules and Banking (Disclosure) Rules

Consequential and other updates

- Amendments to Banking (Exposure Limits) Rules and Banking (Liquidity) Rules

Target submission to LegCo

- December 2023

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Basel III final reforms

- Many jurisdictions have deferred from the Basel official implementation date of 1 January 2023 due to intervening events (e.g. COVID-19). Taking into account the range of views from the recent industry consultation and various implementation timelines of other jurisdictions, our target local implementation schedule for implementing the revised Basel standards is:
 - those on credit risk, operational risk as well as on the output floor (for the use of internal models) will take effect on 1 January 2025;
 - those on market risk and credit valuation adjustment risk will take effect on 1 July 2024 initially for reporting purposes only, and on 1 January 2025 for the actual capital requirements; and
 - the corresponding disclosure requirements will also take effect on 1 January 2025.
- The HKMA aims to complete the rule-drafting for the amendment rules to be submitted to LegCo in December 2023. This will provide banks with sufficient time to ready their systems for implementation.

Consequential and other updates

- Other amendments will be submitted to LegCo alongside the amendments to the Banking (Capital) Rules and the Banking (Disclosure) Rules. These include:
 - some consequential amendments to the Banking (Exposure Limits) Rules and the Banking (Liquidity) Rules, together with certain technical refinements to enhance clarity and better reflect the policy intent of some existing provisions; and
 - miscellaneous amendments to the Banking (Capital) Rules to facilitate the implementation of a positive neutral Countercyclical Capital Buffer.

Anti-money laundering and counter-financing of terrorism (AML/CFT)



- Launched bank-to-bank information sharing platform (FINEST) in June 2023, increasing the ability to detect and disrupt fraud and provide greater protection to the public
- 28 retail banks implemented real time fraud monitoring systems to strengthen the identification of suspicious payments, alert customers and thereby reducing potential losses
- Co-hosted fourth AML Regtech Lab (AMLab 4); published “AML/CFT Regtech: Case Studies and Insights Volume 2” and “AML Regtech: Network Analytics”
- Updated AML/CFT Guideline to incorporate the latest legal requirements

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- The first phase of FINEST was successfully rolled out in June 2023 with participation by five Domestic Systemically Important Authorized Institutions and focuses on sharing of suspected fraud-related corporate account information. Around half of the shared cases were related to investment scams, while the rest were related to online shopping and romance scams. FINEST enables participating banks to conduct enhanced monitoring of high-risk accounts, identify previously unknown suspicious accounts and file suspicious transaction reports to facilitate criminal investigations.
- 28 retail banks have implemented real-time fraud monitoring systems, in line with the HKMA’s requirements, to strengthen detection capabilities and alerting potential victims of fraud to think twice before making high risk transactions.
- The HKMA co-hosted the fourth AMLab with Cyberport in June 2023. AMLab 4 brought together retail banks, SVF licensees, technology companies and industry experts to innovate and develop a sector-wide approach to real-time fraud monitoring, including proactive detection of money mule accounts and alerts for potential victims of deception to protect against losses. “AML/CFT Regtech: Case Studies and Insights Volume 2” was published in September 2023 to share real-life use cases from banks in their AML Regtech adoption, which covered more sophisticated solutions. “AML Regtech: Network Analytics” was published in May 2023 to share banks’ experiences and expert insights for network analytics.
- To help AIs implement the latest legislative amendments (e.g. digital identification system, definition of politically exposed person), the HKMA issued an updated Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Authorized Institutions) (AML/CFT Guideline) on 25 May 2023 following industry consultation. Guidance was also provided to AIs to implement appropriate measures under the AML/CFT Guideline, consistent with the risk-based approach.

Resolution regime



- Issued draft Code of Practice chapter on continuity of access (CoA) to Financial Market Infrastructure (FMI) services in resolution for industry consultation
- Continued to progress 2023 resolution planning priorities with relevant banks
- First initial period for compliance with the Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights—Banking Sector) Rules (“Stay Rules”) concluded in August 2023

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- The HKMA continues to develop resolution standards which relevant banks need to comply with in order to remove impediments to resolvability. On 30 August 2023, the HKMA issued a draft Code of Practice chapter on CoA to FMI services for a two-month industry consultation. The draft chapter sets out the Monetary Authority’s expectations regarding the ex-ante capabilities and arrangements to be put in place by banks for maintaining CoA to critical FMI services in a resolution scenario.
- Under the bilateral resolution planning programmes, the HKMA continued to progress 2023 resolution planning priorities set out with the individual systemically important or large banks to enhance resilience and resolvability of these banks. These priorities are mainly in the areas of: (i) loss-absorbing capacity; (ii) operational continuity in resolution; (iii) early termination risk in resolution; (iv) liquidity and funding in resolution; (v) continuity of access in resolution to financial market infrastructure; and (vi) core resolution information submission.
- Specifically regarding the risks arising from disorderly early termination of financial contracts in resolution, the HKMA has been assessing the work by banks for meeting the Stay Rules requirements. The contractual recognition requirements under the Stay Rules for covered contracts entered into by a covered entity with an AI or a global systemically important bank should be met by 27 August 2023. The requirements for any other covered contracts should be met by 27 February 2024.

Green and sustainable banking



- Published a discussion paper on “Prototype of a Green Classification Framework for Hong Kong” and launched the consultation in May 2023. Fine-tuning the prototype with enhancements and illustrations based on feedback received from consultation, and summarising feedback with recommendations on future work
- Issued a circular in August 2023 setting out high-level principles on transition planning. Conducting a survey on banks’ transition planning practices with a view to sharing a range of practices with the industry
- Building a common platform for banks to carry out physical risk assessment. Phase 1 will be launched by the end of 2023 and Phase 2 is expected by Q3 2024

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- In May 2023, with support from our consultant, the HKMA published a discussion paper on “Prototype of a Green Classification Framework for Hong Kong” and launched the consultation. Based on the feedback received from the consultation, we are working to fine-tune the prototype with enhancements and illustrations, and summarise the consultation with recommendations on future work such as expanding the coverage of activities to include transition activities.
- In August 2023, the HKMA issued a circular on planning for net-zero transition, which set out high-level principles to assist banks in maintaining safety and soundness in the transition to a net-zero economy. We recognise that internationally, discussions on transition planning are still on-going. As such, we will enhance the principles as necessary pursuant to international developments, such as any guidance from the Basel Committee. The HKMA is also conducting a survey on banks’ practices in transition planning, with a view to sharing a range of practices with the industry.
- To accelerate the banking sector’s progress in managing climate risks, there is a need to build up banks’ capacity in understanding and assessing climate risks and to improve data availability so that banks can have consistent and granular data to conduct climate risk assessments. The HKMA is building a common platform to facilitate banks’ assessment of the impact of physical risk on real estate. The platform will be launched in two phases – Phase 1 will contain basic functionalities and will be launched within 2023, while Phase 2 which involves localisation measures is expected by the third quarter of 2024.

Talent development in banking sector



Attract and nurture the younger generation to create talent pipeline

- Over 70 students were recruited by the HKMA and 30 participating institutions through the Gap Year Placement Programme of Fintech Career Accelerator Scheme 2023/24 edition
- Support early life planning and introduce banking industry to secondary school students and teachers:
 - Co-organised various events together with the Education Bureau and the banking industry during July 2023 for over 100 students and teachers
- Equip university students with banking knowledge, future skills and practical work experience for their banking careers:
 - Commenced a new round of Banking Career Talks in October 2023
 - Co-organised with the Private Wealth Management Association for the Recruitment Day in November 2023 for 2024 intake of the Apprenticeship Programme for Private Wealth Management
 - Commenced the third round of the Future Banking Bridging Programme in November 2023 for 300 students

Talent development in banking sector



Reskill and upskill the existing workforce to keep pace with digital transformation and business development

- Launched the Core Level of the new module on Green and Sustainable Finance under the Enhanced Competency Framework for Banking Practitioners in July 2023, and now working with the banking industry to develop the Professional Level
- Shared with the industry major banks' good talent development practices and the HKMA's expectations in September 2023, and updating relevant supervisory guidance which is expected to be ready for industry consultation by end-2023 before implementation in 2024
- Co-organised a seminar on "Fulfilling Career for Young Bankers" with the Hong Kong Association of Banks in October 2023 to provide career guidance to young bankers, assisting them in developing a long-term career in the banking industry

Talent development in banking sector



Promote cross-boundary flows of banking talents to capture opportunities brought by the Greater Bay Area (GBA)

- Co-organised a cross-boundary study tour with the Hong Kong Institute of Bankers (HKIB) to Shenzhen and Qianhai in June 2023 for around 100 banking practitioners to deepen their knowledge on fintech and GBA business development
- The HKIB and the China Banking Association entered into a Memorandum of Understanding in September 2023 to mutually recognise the relevant qualification of Enhanced Competency Framework for Banking Practitioners – Retail Wealth Management in Hong Kong and the Qualification Certificate of Banking Practitioner in the Mainland

Financial inclusion



- Launched spatial datasets of physical facilities of retail banks
- Encouraged more banks to provide Simple Bank Account (SBA) services

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- The HKMA has launched two additional spatial datasets on 29 September 2023, providing information on physical branches and Automated Teller Machines (ATMs) of 20 retail banks in Hong Kong respectively for public use through Open Application Programming Interface. As part of the efforts in fostering financial inclusion, the HKMA also collaborated with the Office of the Government Chief Information Officer (OGCIO) to show the locations of physical branches and ATMs of the 20 retail banks on a digital map on the OGCIO's Open Data Portal through the adoption of these two spatial datasets.
- The HKMA has encouraged more banks to support and launch SBA services, with a view to providing basic banking services with less extensive customer due diligence measures and offering more choices for corporate customers. Following the launch of SBA services by three banks during 2023, altogether seven banks are now offering SBA services. Since the introduction of the services, around 18,000 SBAs have been successfully opened.

Banking consumer protection



- Confirming enhancements to the Code of Banking Practice
- Multiple Credit Reference Agencies (MCRAs) preparing for commencement of services
- Launched the “Anti-Scam Consumer Protection Charter” (“Charter”) to combat credit card scams

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- The HKMA is working with the industry in confirming the enhancements to the Code of Banking Practice. Enhancement measures include further strengthening of protection to banking consumers with respect to digital banking services; supporting customers’ assessment of risks and repayment ability to promote responsible borrowing by consumers; enhancement of customers’ ability in credit management; and strengthening fair treatment of customers throughout the banking lifecycle.
- Under the MCRAs Model, participating credit providers have completed the uploading of their consumer credit data onto the Credit Reference Platform. The selected credit reference agencies have downloaded the data and have been conducting data cleansing and validation in preparation for their provision of consumer credit reference services.
- To enhance public awareness of safeguarding credit card and personal information, the HKMA, in collaboration with the Hong Kong Association of Banks, launched the Charter on 29 June 2023. The Charter has received the full support of all 23 card issuing banks in Hong Kong, 15 major merchants across different sectors, the Hong Kong Police Force and the Consumer Council. Under the Charter, participating institutions committed not to send instant electronic messages to customers with embedded hyperlinks to request for personal and credit card information online, and to conduct the related consumer education through various means.

Banking investor protection



- Commenced supervision of trust business of banks
- Issued joint circular with Securities and Futures Commission (SFC) on streamlined selling processes for sophisticated professional investors
- Updated joint circular with SFC on intermediaries' virtual asset-related activities
- Issued guidance on alternative arrangement for audio recording of Protection Linked Plan
- Issued guidance on disclosure of interest rate of premium financing facilities

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- Supervisory Policy Manual module TB-1 “Regulation and Supervision of Trust Business” came into operation on 1 June 2023. In June 2023, the HKMA published a List of AI-related Trustees on its website to enable the public to identify bank-related trustees. Subsequently, the HKMA launched a half-yearly survey on trust business, and commissioned a self-assessment on the compliance of banks and subsidiaries of locally incorporated banks.
- To enhance customer experience and accord investor protection on a risk-based principle, the HKMA and the SFC jointly issued guidance to streamline the product due diligence, suitability assessment and product disclosure processes for sophisticated professional investors in July 2023.
- In response to the guidelines on virtual asset trading platforms issued by the SFC, the HKMA and the SFC issued an updated joint circular on intermediaries' virtual asset-related activities in October 2023 in alignment with the requirements for virtual asset trading platforms.
- The HKMA issued a circular on 30 August 2023, to provide flexibility to AIs to adopt alternative arrangement for meeting the audio recording requirement in selling Protection Linked Plan to non-vulnerable customers, with a view to enhancing customer experience.
- The HKMA issued a circular on 16 October 2023, to remind AIs on proper disclosure of interest rate of premium financing facilities and clarify the disclosure requirements.

Banking investor protection



- Consulting industry on standards in banks' provision of digital asset custodial services
- Consulting industry on standards in banks' sale of green and sustainable investment products
- Consulting industry on revised Supervisory Policy Manual module "Supervision of Regulated Activities of SFC-Registered Authorized Institutions"

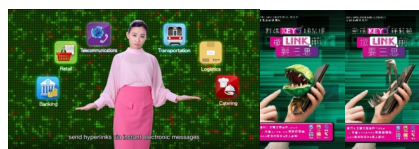
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- As the digital asset sector continues to grow, the HKMA considers it necessary to set out the regulatory standards expected of banks which provide digital asset custodial services to their customers. The HKMA is conducting an industry consultation on the guidance which is drafted with reference to international standards and is applicable to banks providing custody of clients' digital assets including virtual assets, tokenised securities and other tokenised assets.
- The HKMA has completed a thematic review on banks with respect to their sale and distribution of green and sustainable investment products. The HKMA is consulting the industry on the expected standards of banks in the sale and distribution of green and sustainable investment products.
- The HKMA is consulting the industry on a revision of the Supervisory Policy Manual module SB-1 "Supervision of Regulated Activities of SFC-Registered Authorized Institutions", which will provide a comprehensive overview of the regulatory framework, supervisory approach, as well as major legal and regulatory requirements in respect of banks' regulated activities under the Securities and Futures Ordinance. The revised module aims to serve as a convenient regulatory handbook with pointers, from which banks could then refer to the source supervisory documents for details.

Public education and social media



- Rolled out a new cross-media publicity campaign following the launch of the Anti-Scam Consumer Protection Charter to remind the public to beware of fraudulent links and phishing scams purportedly from banks and merchants
- Enriched secondary school students' understanding on digital and sustainable economy through a series of programmes, with a record breaking participation of over 270 secondary schools and around 20,000 submissions for the Hong Kong Financial Literacy Championship 2023
- Launched a financial education board game "\$mart Money Management 321" targeting primary school students. The game was promoted and was a hot sale item at the Hong Kong Book Fair 2023. It also won international product design awards
- Posted a series of Ghost Festival social media content, using an alternative creative way to remind the public to beware of scams, keep their personal passwords secure and refrain from clicking on suspicious links



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- To sustain the publicity following the launch of the Anti-Scam Consumer Protection Charter, a new publicity campaign themed "Protect your Personal Digital Keys, Beware of Fraudulent Links!" was launched across electronic, social and out-of-home media to remind the public that banks and major merchants have committed not to send hyperlinks via instant electronic messages to ask for personal and credit card information.
- Co-organised the Hong Kong Financial Literacy Championship 2023 with various stakeholders to enhance secondary school students' understanding on digital and sustainable economy through a series of programmes, including an online quiz, mentoring and design thinking challenge. The number of participants hits a record high this year, with over 270 secondary schools and around 20,000 submissions for the online quiz.
- Launched a financial education board game "\$mart Money Management 321" to help primary school students learn about different payment methods, concepts on money management, fintech and cybersecurity in a simulation setting. Staged a booth at the Hong Kong Book Fair 2023 to promote the board game, which was a hot sale item at the Book Fair. The board game also won two silver awards in the categories of "Product Design – Toys" & "Product Design – Educational Tools / Teaching Aids / Learning Device" in the MUSE Design Awards 2023. After the Book Fair, the HKMA will organise a series of free activities, including workshops in the community centres, trials for students in primary schools, and train-the-trainer workshops for primary school teachers and social workers at NGOs, to sustain the promotion.
- The HKMA, through our social media channels from time to time, reminds the public to beware of frauds. The HKMA took the occasion of the Chinese Ghost Festival to launch a series of festive content on social media in an alternative creative way, aiming to remind the public to stay alert for scams, keep their personal passwords secure and refrain from clicking on suspicious links.

Enhancements to the Deposit Protection Scheme (DPS) in Hong Kong



- The Hong Kong Deposit Protection Board (the Board) launched a public consultation on DPS enhancements in mid-July 2023 and has ended in mid-October 2023
- The Board is consolidating and carefully considering the views and comments received in finalising the proposals, with the aim of announcing the consultation conclusions in early 2024
- The Board targets to submit the amendment bill to LegCo in Q1 2024 and implement the final proposals on DPS enhancements between Q4 2024 and early 2025, subject to the progress on scrutiny of the bill by the LegCo
- The Board will get in touch with the banking industry soon to discuss the relevant preparatory work for the implementation of proposed enhancements to the DPS

Deposit Protection Scheme (DPS)



Promoting the public awareness and understanding of the DPS

- Re-run the TV commercial "Keep Calm and Deposit Safely On", associated with out-of-home and online advertisings, to promote the Board's image as "Guardian of Deposits" to mass public
- Launched a DPS Instagram Fanpage to extend the reach to the younger generation
- Collaborated with a local media to implement the "Money-Saving Challenge for Athletes" video campaign on social media platforms





Financial Infrastructure

Financial infrastructure: overview



Payment systems

- Four Real Time Gross Settlement (RTGS) Systems for HKD, RMB, USD and Euro:
 - Average daily turnover in Q3 2023 reaching HK\$1,128 billion, RMB1,957 billion, US\$53 billion and €0.5 billion respectively
- Faster Payment System (FPS):
 - The FPS marked its fifth anniversary in September 2023. The number of registrations exceeded 13 million, with an average annual growth of 36% over the past five years. The daily HKD real-time transaction volume and value grew by an average of 70% and 41% per year respectively in the past five years. The average daily HKD real-time transactions reached 1.32 million (+31% yoy) in September 2023
 - The linkage between Hong Kong's FPS and Thailand's PromptPay is scheduled for launch on 4 December 2023

Central Moneymarkets Unit (CMU)

- Providing settlement and custodian service for debt securities, by end-September 2023:
 - HK\$2.9 trillion equivalent outstanding debt securities lodged with CMU
- Supporting Bond Connect (Q3 2023)
 - For Northbound Trading: trading volume was RMB2.8 trillion
 - For Southbound Trading: trading volume reached RMB134.3 billion

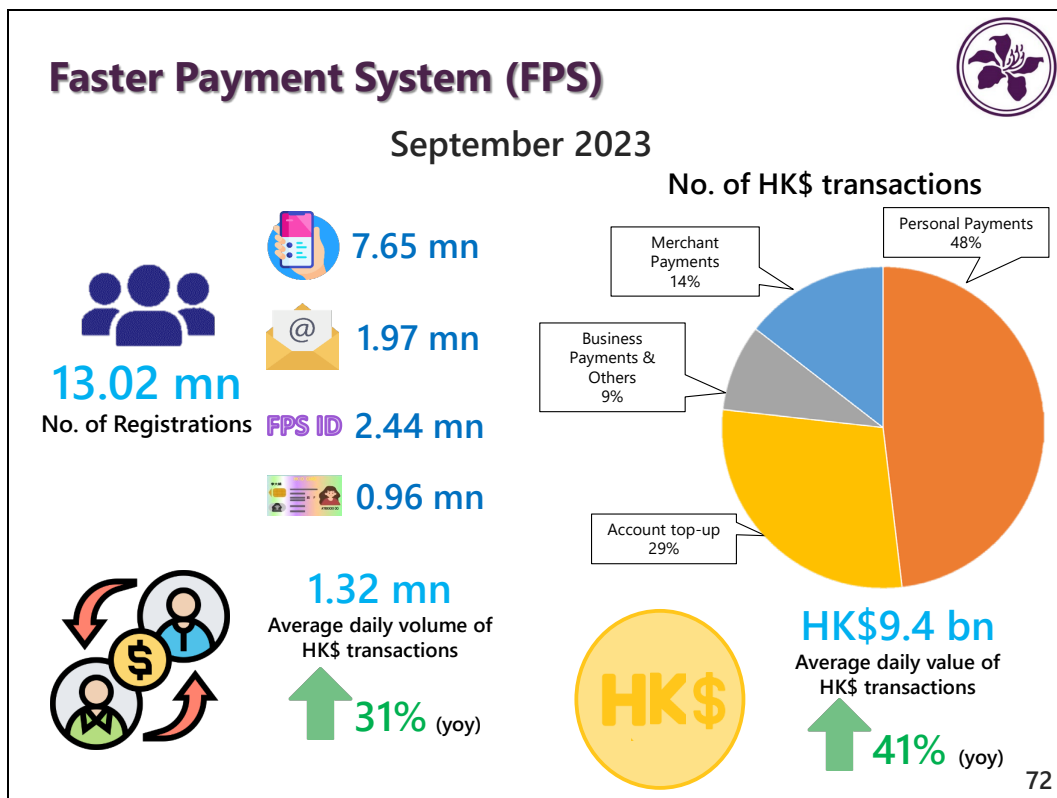
Hong Kong Trade Repository: maintains an electronic database of over-the-counter derivative transactions

- The number of outstanding transactions reached 4.97 million at end-September 2023

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Faster Payment System (FPS)

- The HKMA is working closely with the Bank of Thailand to link Hong Kong's FPS and Thailand's PromptPay to provide a new service called "FPS x PromptPay QR Payment", which is scheduled for launch on 4 December 2023. FPS users will be able to scan and pay at over eight million PromptPay merchants in Thailand using their mobile phones. Thai visitors to Hong Kong will also be able to use PromptPay to pay at any of the around 50,000 FPS merchants in Hong Kong which choose to accept FPS QR payments. The new service will provide an additional safe and efficient payment channel, enhancing customer experience in retail payment and fostering economic development and entrepreneurial prospects in the two economies.



- The FPS marked its fifth anniversary in September 2023. The number of registrations exceeded 13 million, with an average annual growth of 36% over the past five years. The daily Hong Kong dollar real-time transaction volume and value grew by an average of 70% and 41% per year respectively in the past five years.
- At end-September 2023, the FPS recorded 13.02 million registrations (including 7.65 million in mobile number, 1.97 million in email address, 2.44 million in FPS ID and 0.96 million in HKID number), up by 18% or 1.98 million registrations year on year (yoy). The average daily Hong Kong dollar real-time transactions reached 1.32 million (+31% yoy), worth HK\$9.4 billion (+41% yoy) in September 2023.
- The usage of the FPS has expanded gradually to merchant payments and top-up transactions from primarily P2P transactions previously.
- To promote the wider adoption of the FPS by corporates, the HKMA organised a “FPS x SME” seminar on 26 September 2023 to facilitate the exchange between the industry and small and midsize enterprises (SMEs). It aimed to explore the significance and growth opportunities of the FPS in the SME payments. In addition, the HKMA has joined hands with 21 banks and Stored Value Facilities (SVF) operators to introduce various promotional offers to corporate and individual customers. Nine of these banks and SVF operators set up exhibition booths at the seminar, explaining various FPS payment solutions and offering discounts on the spot to SME customers. Hong Kong Interbank Clearing Limited, the operator of the FPS, exempted banks and SVF operators from settlement fees when processing real-time payments from corporates and merchants through the FPS in October 2023. This aims to encourage banks and SVF operators to pass on the benefit to SMEs and merchants, further expanding the use of FPS among them.

Development of Central Moneymarkets Unit (CMU)



- To help Hong Kong grasp the opportunities from the further opening up of the Mainland financial markets, the CMU has commenced enhancements on both system and business fronts, with a long-term objective of becoming a major international central securities depository (CSD) in Asia. Various system and service enhancements have been launched and planned:
 - Collateralised lending service for primary issuance, new CMU website and tender display were launched in 2022
 - Open application programming interface (Open API) and modernised user interface supporting various digitalised services have been launched in July 2023
 - New platform with strengthened system capability and functionality is being developed
 - Ongoing marketing promotion to attract more bond issuance

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- Being a critical financial infrastructure operated by the HKMA, CMU is a CSD providing safe, efficient and convenient clearing, settlement and custodian services for debt securities, which in turn supports the bond market development in Hong Kong.
- To seize the opportunities from Bond Connect, the HKMA has reviewed the strategic position of CMU and will gradually develop CMU into a major international CSD in Asia. To realise such goal, CMU will commercialise its business and operation to develop value-added services in two main areas:
 - **System enhancement**
 - To launch a new CMU website to provide the industry and public with a quick and convenient means of searching for bond market information (launched in July 2022);
 - To launch a new tender display for the People’s Bank of China Bills and the Ministry of Finance of the People’s Republic of China sovereign bonds tender events (launched in October 2022);
 - To launch a new open API and a new user interface (with dashboard, e-lodgement and account management services) to provide CMU members with a more hassle-free experience (launched in July 2023); and
 - To introduce a new CMU system with a more flexible account structure and settlement mechanism, and enhanced collateral management function.
 - **Introduction of new services**
 - Collateralised lending service to provide free intra-day liquidity for primary issuance (launched on 1 April 2022). Since the introduction, the service has so far been used to support bond issuance with RMB30.42 billion and €1.25 billion.
 - The new CMU platform will support 24-hour operation to better serve investors in different time zones.

Latest fintech initiatives



Central Bank Digital Currency (CBDC)

- For wholesale CBDC (mBridge): at the Minimum Viable Product (MVP) development phase; published a brochure highlighting the key achievements and future roadmap in October 2023
- For retail CBDC (e-HKD): paving the way for possible implementation of e-HKD by adopting a three-rail approach; established a CBDC Expert Group; published a report on the overall assessment of the pilots conducted under Phase 1 of the e-HKD Pilot Programme and the way forward in October 2023

Commercial Data Interchange (CDI)

- Since its official launch, CDI has facilitated more than 8,900 loan applications and reviews, with an estimated credit approval amount exceeding HK\$8 billion as of end-September 2023
- By the end of 2023, the Government's Consented Data Exchange Gateway will connect to CDI, and the Companies Registry will be the first government data source of CDI
- When more government departments share their digital data with financial institutions via the connection, the development of Hong Kong's digital economy will be greatly enhanced

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Wholesale CBDC (mBridge)

- mBridge has now progressed to MVP development phase with the goal of launching MVP in 2024 and paving the way for a production-ready system.

Retail CBDC (e-HKD)

- The HKMA adopts a three-rail approach to prepare for the possible implementation of e-HKD:
 - Rail 1: to lay the technology and legal foundations
 - Rail 2: runs in parallel to Rail 1; to take deep dives on application research and pilots
 - Rail 3: to consolidate the outcomes of Rails 1 and 2 and set the timeline for launching e-HKD
- In May 2023, the HKMA announced the commencement of the e-HKD Pilot Programme, a key component of Rail 2. A total of 16 firms from the financial, payment and technology sectors were selected to participate in the first round of pilots for 2023, taking deep dives into potential use cases in six categories, including full-fledged payments, programmable payments, offline payments, tokenised deposits, settlement of Web3 transactions and settlement of tokenised assets. Working with the industry, the HKMA has completed Phase 1 of the e-HKD Pilot Programme and published a report on the overall assessment of the pilots and the way forward in October 2023.
- To foster collaboration and knowledge exchange on CBDC research with the academia, the HKMA established a CBDC Expert Group and signed Memorandums of Understanding with five local universities whose faculty members are participants of the group in October 2023. The group has already commenced work on two research papers. The first paper is about privacy issues pertaining to CBDC and the second paper will discuss the interoperability of CBDCs.

Stored value facilities (SVFs) and retail payment systems (RPSs)



- SVF usage continued to grow in Q2 2023:
 - Average daily transaction number: 21.51 million (+11.1% year on year (yoy))
 - Average daily transaction value: HK\$1,849 million (+6.3% yoy)
- Continue to supervise SVF licensees in a risk-based manner, taking targeted supervisory actions where necessary
- Continue to oversee six designated RPSs

Regulatory development of the over-the-counter (OTC) derivatives market



- The HKMA and the SFC jointly published the consultation conclusion paper in August 2023 on the proposed amendments to the Clearing Rules for over-the-counter derivative transactions pursuant to the global interest rate benchmark reform. The amendments to the Clearing Rules was gazetted in October 2023 for implementation in Q3 2024
- As of end-October 2023, the Hong Kong Trade Repository logged a total of 5.02 million outstanding OTC derivatives trades, covering five asset classes under mandatory reporting requirements, i.e. foreign exchange, interest rate, equity, credit, and commodity derivatives

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- On 10 March 2023, the HKMA and the SFC launched a joint consultation on proposed changes to the types of transactions subject to the clearing obligations under the Clearing Rules for over-the-counter derivatives. The proposals are in line with the global interest rate benchmark reform, particularly the transition from the use of interbank offered rates (IBORs) to alternative reference rates (ARRs). It is proposed that the current requirements under the Clearing Rules to clear certain OTC derivative transactions referencing IBORs that are, or will no longer be, published or considered representative would be replaced by the new requirements to clear certain OTC derivatives transactions referencing the relevant ARR. On 29 August 2023, the HKMA and SFC jointly issued the consultation conclusion paper. The proposals received support from the industry. Subject to the legislative process, the amended Clearing Rules are expected to be implemented in the third quarter of 2024.

Interest rate benchmark reforms

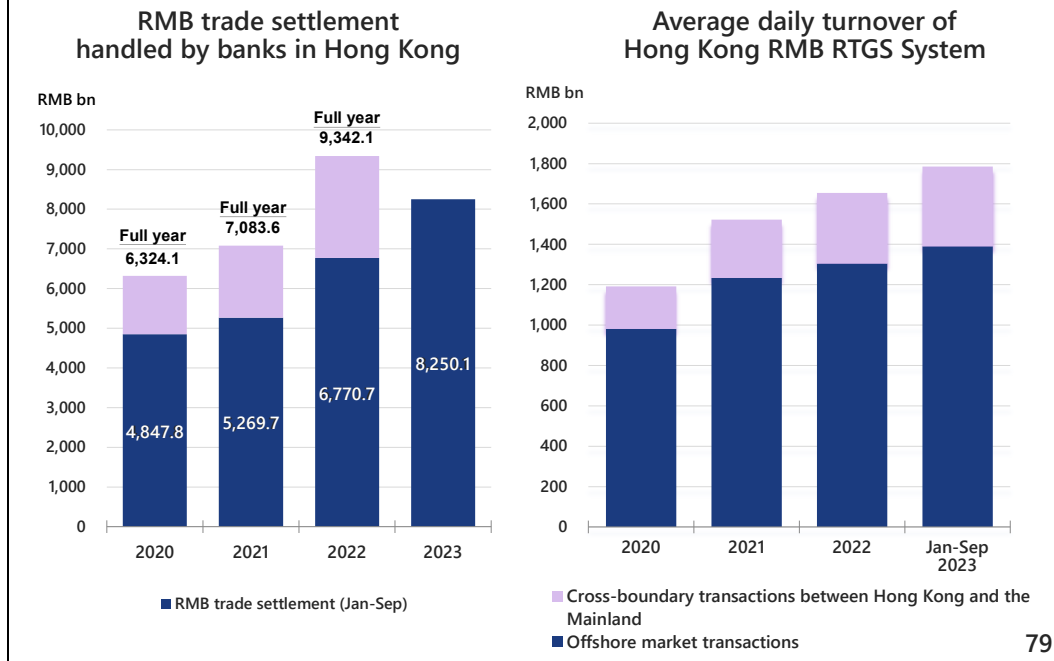


- The global initiative to transition from LIBOR to the respective alternative reference rates was completed smoothly and as scheduled at the end of June 2023
- As in many jurisdictions, Hong Kong adopts a multiple-rate approach, under which both Hong Kong Interbank Offered Rate (HIBOR) and Hong Kong Dollar Overnight Index Average (HONIA) will co-exist



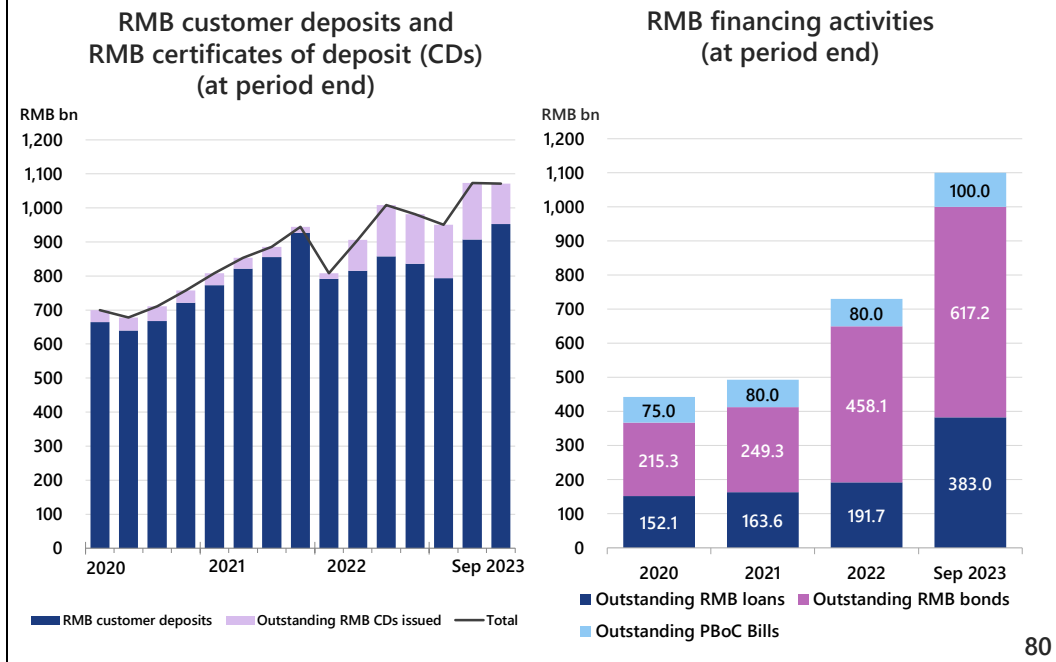
Hong Kong as an International Financial Centre

Hong Kong as offshore RMB business hub: RMB trade settlement and payment



- In the first three quarters of 2023, renminbi (RMB) trade settlement handled by banks in Hong Kong totalled RMB8,250.1 billion.
- In the first three quarters of 2023, the average daily turnover of Hong Kong RMB Real Time Gross Settlement (RTGS) system stood at RMB1,784.4 billion.

Hong Kong as offshore RMB business hub: RMB liquidity pool and financing activities



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- As at end-September 2023, RMB customer deposits and outstanding RMB CDs amounted to RMB952.6 billion and RMB119.2 billion respectively, totalling RMB1,071.8 billion.
- As at end-September 2023, outstanding RMB loans amounted to RMB383.0 billion. Outstanding dim sum bonds (including RMB CDs) amounted to RMB617.2 billion. Outstanding PBoC bills issued in Hong Kong amounted to RMB100.0 billion.

Mutual market connect schemes



- **Northbound Trading under Bond Connect** remained active. In the first three quarters of 2023, average daily turnover amounted to RMB40.5 billion (26% year-on-year growth). **Southbound Trading** has been in order, contributing to the growth in dim sum bond issuance and trading. Nine additional financial institutions were designated as market makers in September 2023 to further enhance secondary liquidity
- **Cross-boundary Wealth Management Connect** has been operating in an orderly manner. To date, 24 eligible Hong Kong banks have launched services. Following the announcement of the enhancement plan in September 2023 (incl. enhancements in product scope, participating institutions, sales arrangements and personal quota, etc.), regulators in Hong Kong, Macao and on the Mainland are revising relevant implementation details with a view to implementing the measures as soon as practicable
- Northbound Trading of **Swap Connect** has been operating in an orderly manner, with 41 global investors onboarded
- **The HKD-RMB Dual Counter Model** and the **Dual-Counter Market Making Programme** have been operating smoothly since the launch in June 2023, with 10 dual counter market makers providing liquidity in the RMB counters of 24 dual-counter securities
- Continue collaboration with Mainland authorities to deepen financial market connections, e.g. broadening Southbound Trading of Stock Connect to include RMB counters, and introduction of Mainland government bond futures in Hong Kong

Developing the asset and wealth management industry



- Hong Kong's private equity industry has remained robust, with US\$214 billion of total capital under management as at end-September 2023*. The limited partnership fund regime continued to see momentum – 722 funds had been established as at end-October 2023
- The family office tax concession bill has taken effect, with tax concession treatment applying retrospectively from 1 April 2022

Developing the bond market



- Hong Kong is a leading bond issuance centre in Asia. According to the International Capital Market Association, Hong Kong has been, for seven consecutive years, the largest hub for arranging bonds issued internationally by Asia-based entities, capturing 30% of the market in 2022
- To promote market innovation and technology adoption, the HKMA assisted the Government to issue the **inaugural tokenised green bond** in February 2023, and released a report in August 2023 to share the experience learnt from this issuance with a view to providing a blueprint for future similar issuances in Hong Kong

Promoting green finance (1)



- Total green and sustainable debt instruments issued in Hong Kong reached a record high of over US\$80 billion in 2022, up by over 40% year on year*
- The Green and Sustainable Finance (GSF) Cross-Agency Steering Group (CASG) co-chaired by the HKMA and the SFC continued work with a focus on ecosystem enhancement, transition finance, sustainability disclosures and green fintech. In particular,
 - A working group on sustainability disclosures was established to develop a Hong Kong roadmap on adopting the International Financial Reporting Standards Sustainability Disclosure Standards. Meanwhile, a workstream on transition finance was formed to explore ways to support financial institutions and corporates in their transition planning and reporting
 - The Centre for Green and Sustainable Finance continued to administer the Pilot GSF Capacity Building Support Scheme
 - The CASG launched the Questionnaire on Climate and Environmental Risk for non-listed companies / small and medium-sized enterprises in December 2022 in collaboration with CDP# to enhance climate data availability and sustainability reporting in Hong Kong. Since the launch, ongoing work has been conducted to provide training and promote adoption, including three workshops held recently in September for companies and financial institutions

* Source: HKMA staff estimates based on statistics from ICMA and LoanConnector

CDP is an international non-profit organisation that runs the global environmental disclosure system for companies

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- The CASG aims to coordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies. Other members include the Financial Services and the Treasury Bureau, the Environment and Ecology Bureau, the Hong Kong Exchanges and Clearing Limited, the Insurance Authority and the Mandatory Provident Fund Schemes Authority.

Promoting green finance (2)



- The HKMA assisted the Government to issue close to US\$6 billion worth of institutional green bonds denominated in US dollars, Euro and renminbi in June 2023, and HK\$20 billion worth of retail green bonds in October 2023
- The Green Bond Report 2023 was published in August 2023 providing details on the allocation of the green bond proceeds and the expected environmental benefits of the projects financed
- The HKMA continues to administer and promote the Green and Sustainable Finance Grant Scheme to attract more green and sustainable financing activities to Hong Kong. The scheme has been well received by the market; by October 2023 it has provided financial support for over 300 green and sustainable debt instruments issued in Hong Kong totalling over US\$90 billion

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- To attract more green and sustainable financing activities to Hong Kong, the Government launched a three-year Green and Sustainable Finance Grant Scheme in May 2021 to cover part of the expenses on bond issuance and external review services. The scheme also encourages more financial and professional service providers and external reviewers to set up their regional hubs in Hong Kong.

Outreach



- The HKMA delegation visited the United Arab Emirates and Saudi Arabia in May and July 2023, respectively. Both visits have laid a solid foundation for long-term financial collaboration between Hong Kong and the Middle East. The central banks will maintain close communication and foster collaboration
- The Global Financial Leaders' Investment Summit 2023 was held successfully in early November 2023, attracting more than 300 leaders from the world's top financial institutions
- The HKMA and the Bank for International Settlements (BIS) will co-organise the HKMA-BIS High-Level Conference on 27-28 November 2023 to commemorate the 30th anniversary of the HKMA and the 25th anniversary of the BIS Representative Office for Asia and the Pacific in Hong Kong. The Conference is expected to attract over 300 delegates, including incumbent and former central bank governors, regional and local CEOs of financial institutions, and other leading experts from Hong Kong and other parts of Asia

Crypto-assets and stablecoins



- On 31 January 2023, the HKMA issued the consultation conclusion to the discussion paper on crypto-assets and stablecoins, summarising the feedback received in relation to the aforesaid paper and the HKMA's relevant response
- In the consultation conclusion, the HKMA confirms that it will bring certain activities relating to stablecoins into the regulatory perimeter, and sets out the expected regulatory scope and key regulatory requirements
- Respondents were supportive of regulating stablecoins with a risk-based and agile approach
- In terms of next steps, the Financial Services and the Treasury Bureau and HKMA will conduct public consultation with more details of the proposed regulatory parameters, and are aiming to introduce the bill into the LegCo in 2024

Government Bond Programme



Retail bonds – outstanding as at end-September 2023

- Two iBonds, totalling HK\$35 billion
- Four Silver Bonds, totalling HK\$139.6 billion

Institutional bonds – outstanding as at end-September 2023

- 17 institutional bonds, totalling HK\$93.5 billion
- One Islamic bond, totalling US\$1 billion

Hong Kong Academy of Finance (AoF)



- **Financial Leaders Programme:** The Programme has admitted 23 financial talents with a balanced mix of backgrounds and expertise for the 2023 Cohort. Programme activities have commenced in April 2023 and will conclude in December
- **Financial Leadership Development:** A number of major events were held since May 2023, drawing speakers and participants from Hong Kong, Mainland, and all around the world
- **Research and Knowledge Exchange Activities:** The Hong Kong Institute for Monetary and Financial Research (HKIMR) hosted its 13th Annual International Conference on the Chinese Economy on 27 October 2023, and organised a series of research events. In addition, the HKIMR released a research report and six working papers on key topical macro and financial themes
- The HKIMR joined the ASEAN+3 Finance Think-tank Network (AFTN) as a founding member institution

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Financial Leaders Programme

- The AoF launched the Financial Leaders Programme in November 2021 to nurture financial talents from a mix of different backgrounds and expertise. The second year of the Programme began in April and will last for nine months, ending in December 2023. It is offered on a part-time basis.
- The inaugural cohort had 19 participants graduated in December 2022, while the 2023 Programme has admitted 23 financial talents. Both Programmes have been a great success, with a lot of positive feedback received from the speakers and participants. Apart from regular engagement with different distinguished financial leaders, the Programme has also organised an inaugural field trip to Shenzhen back in September 2023, with a theme centring around fintech. The participants appreciated that the Programme offered them high-level and strategic perspectives on and enriched their understanding of various financial topics and trends which better prepare them for upcoming opportunities and challenges, and in the meantime expanded their professional networks.

Financial Leadership Development

- The AoF organised seminars under Distinguished Speakers Series with Ms Julia Leung, CEO of the Securities and Futures Commission on 30 May 2023; Mr Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co on 2 June 2023 and Dr Richard Clarida, Global Economic Advisor, PIMCO on 12 July 2023.
- On 6 June 2023, the AoF hosted a roundtable discussion with leading experts focusing on new regulations and enforcement trends on antitrust, privacy, cybersecurity, sanctions, and FDI facing companies doing business in the US, EU, UK and Hong Kong.
- On 28 June 2023, the AoF together with the Hong Kong Green Finance Association and The Hong Kong University of Science and Technology co-organised a seminar “Accelerating the Transition to a Net-Zero Global Economy: Regulatory Climate Disclosure

and Risk Analysis”, featuring Mr Ben Weisman, Director of Global Public Policy of The Glasgow Financial Alliance for Net Zero.

- International Finance Forum convened a conference titled “Multilateralism and Globalization in an Era of Strategic Competition and Implications for Asia”, which was hosted by the HKMA and supported by the AoF on 5 May 2023.

Research and Knowledge Exchange Activities

- A new applied research report titled “The Digitalisation of Financial Services in Hong Kong: Recent Experience, Regulatory Developments and Considerations for Sustainable Innovation and Growth” was released by the HKIMR in July 2023.
- The HKIMR released six working papers and organised nine research seminars on monetary and financial research topics.
- On 10 July 2023, the HKIMR, the University of Hong Kong and the BIS Asian Office co-organised an international conference on Fintech and Financial Stability. Prof Bengt Holmström, 2016 Nobel Prize Laureate in Economics, from MIT conducted a virtual discussion in the conference.
- On 24-25 August 2023, the HKIMR, together with ASEAN+3 Macroeconomic Research Office (AMRO), European Central Bank, European Stability Mechanism and the Bank of Finland Institute for Emerging Economies, organised a workshop on “Recent Developments and Future Prospects of the International Monetary System”. Over 100 participants from central banks, private sector, academia and international financial institutions attended in person.
- On 29 August 2023, the HKIMR and AMRO organised a roundtable on the Hong Kong Economy. A few chief economists for China or Asia from major investment banks and academia were invited to join the roundtable.
- On 8 September 2023, the HKIMR and the IMF Resident Representative Office in HKSAR jointly hosted a webinar on “External Rebalancing in Turbulent Times”.
- The HKIMR hosted its flagship event, the Thirteenth Annual International Conference on the Chinese Economy, on 27 October 2023. The is “China’s Economic Development in a Changing Global Environment”. Over 100 participants attended in person.
- On 29 September 2023, The HKIMR signed a Memorandum of Cooperation to join the AFTN as a founding member institution. The AFTN brings together 21 research institutions across the ASEAN+3 region. Its mission is to enhance regional economic and financial resilience and stability.



Investment Environment and Performance of the Exchange Fund

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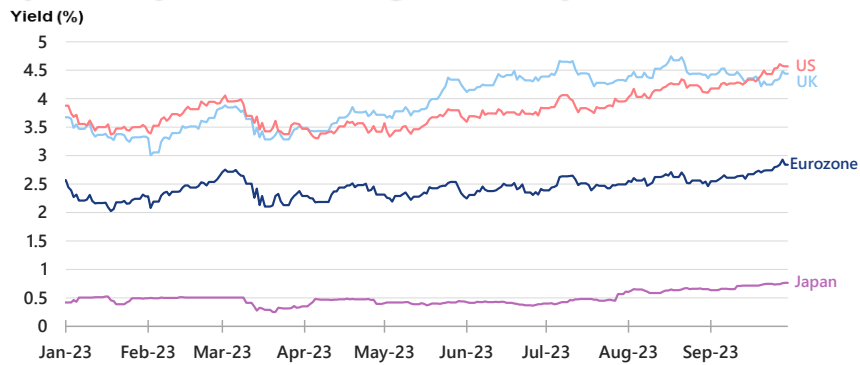


Investment environment in Q3 2023

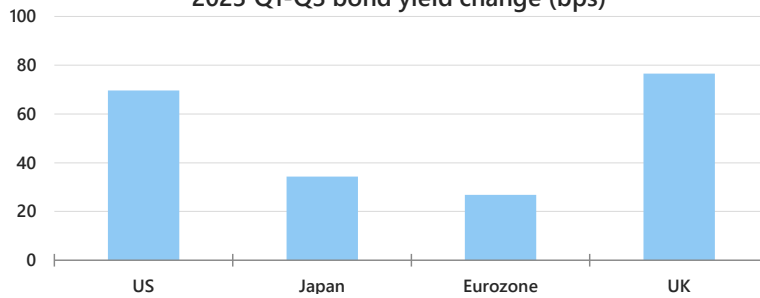
- **Interest rates:** Yields rose further in Q3 despite signs of moderating inflation, as concerns over the US' deteriorating public finances weighed on the US Treasuries. Following the US Fed's indication that rates would remain higher for longer, the 10-year US Treasury yield hovered above 4.5% towards quarter end, reaching 4.57%, its highest level since 2007
- **Equity markets:** Global equity markets declined in Q3, driven by the market expectation of a prolonged period of higher interest rates, reversing the upward momentum observed during the first half of the year. The S&P 500 fell by 3.65% during the quarter. Downward adjustments of the Mainland and Hong Kong stock markets continued, as investor sentiments remained weak amidst the lack of growth momentum
- **Exchange rates:** Affected by weak US economic data in mid-2023, the USD weakened at the beginning of Q3, but this was soon reversed as high interest rate expectations and the US Fed's hawkish monetary policy stance took hold. The USD strengthened against major currencies across the board during the quarter

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Major 10-year sovereign bond yields rose



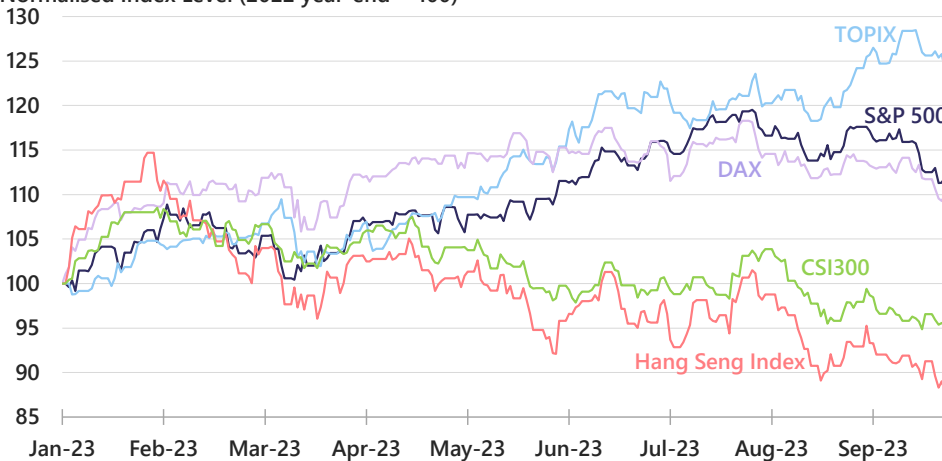
2023 Q1-Q3 bond yield change (bps)



Major equity markets recorded mixed performance



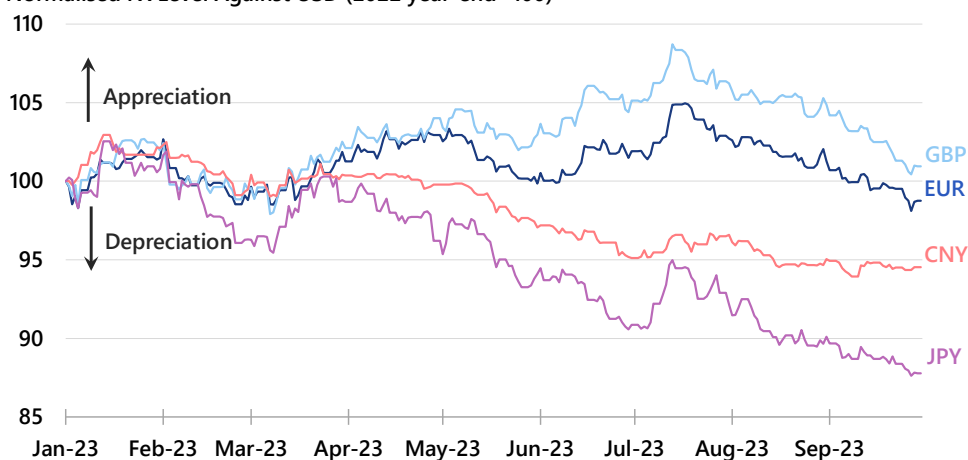
Normalised Index Level (2022 year-end = 100)



Major currencies generally weakened against USD



Normalised FX Level Against USD (2022 year-end=100)



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Investment income



	← 2023 →		2022	2021
	(unaudited)			
(HK\$ billion)	Jan - Sep	Q3	Full year	Full year
Bonds	73.7	15.7	(53.2)	12.6
Hong Kong equities*	(10.5)	(5.7)	(19.5)	(21.0)
Other equities	40.5	(8.0)	(61.0)	68.8
Foreign exchange[#]	(9.3)	(7.5)	(40.0)	16.8
Other investments[@]	16.5	-	(31.7)	114.7
Investment income/(loss)	110.9	(5.5)	(205.4)	191.9

* Excluding valuation changes of the Strategic Portfolio.

[#] This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging.

[@] Including valuation changes of private equity and real estate investments held under the Long-Term Growth Portfolio.

This figure reflects the valuations at the end of June 2023. Valuation changes of these investments from July to September are not yet available.

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Income and expenditure



(HK\$ billion)	2023		2022	2021
	Jan - Sep	Q3	Full year	Full year
	(unaudited)			
Investment income/(loss)	110.9	(5.5)	(205.4)	191.9
Other income	0.1	-	0.2	0.2
Interest and other expenses	<u>(38.1)</u>	<u>(14.4)</u>	<u>(18.8)</u>	<u>(6.1)</u>
Net income/(loss)	72.9	(19.9)	(224.0)	186.0
Fee payment to Fiscal Reserves**	(14.0)	(4.0)	(26.0)	(93.0)
Fee payment to HKSAR Government funds and statutory bodies*	(12.1)	(4.2)	(22.1)	(16.8)

* The rate of fee payment is 3.7% for 2023, 5.6% for 2022 and 4.7% for 2021.

This does not include the 2023 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2023 is available.

The composite rate was -3.0% for 2022 and 17.8% for 2021. Fee (reversed from)/payable to the Future Fund was HK\$(9.0) billion for 2022 and HK\$58.6 billion for 2021.

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Exchange Fund Abridged Balance Sheet



(HK\$ billion)	At 30 Sep 2023 (unaudited)	At 31 Dec 2022	At 31 Dec 2021
ASSETS			
Deposits	336.6	368.8	300.8
Debt securities	2,753.1	2,773.3	3,290.0
Hong Kong equities*	132.5	150.4	183.2
Other equities	447.4	472.4	561.8
Other assets#	<u>254.0</u>	<u>243.1</u>	<u>234.4</u>
Total assets	<u>3,923.6</u>	<u>4,008.0</u>	<u>4,570.2</u>
	=====	=====	=====
LIABILITIES AND EQUITY			
Certificates of Indebtedness	595.6	606.0	592.4
Government-issued currency notes and coins in circulation	12.9	13.2	13.1
Balance of the banking system	45.2	96.2	377.5
Exchange Fund Bills and Notes issued	1,228.4	1,200.3	1,148.6
Placements by banks and other financial institutions	113.0	99.5	-
Placements by Fiscal Reserves®	659.2	765.2	973.3
Placements by HKSAR Government funds and statutory bodies	478.7	449.0	394.3
Placements by subsidiaries	30.5	30.6	26.2
Other liabilities	<u>187.0</u>	<u>190.8</u>	<u>238.0</u>
Total liabilities	<u>3,350.5</u>	<u>3,450.8</u>	<u>3,763.4</u>
Accumulated surplus	572.3	556.4	805.9
Revaluation reserve	<u>0.8</u>	<u>0.8</u>	<u>0.9</u>
Total equity	<u>573.1</u>	<u>557.2</u>	<u>806.8</u>
Total liabilities and equity	<u>3,923.6</u>	<u>4,008.0</u>	<u>4,570.2</u>
	=====	=====	=====

* Including shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio.

Including fund injection to Exchange Fund's investment holding subsidiaries at a carrying amount of HK\$200.8 billion at 30 September 2023 (HK\$191.7 billion at 31 December 2022 and HK\$190.1 billion at 31 December 2021).

® Including placements by the Future Fund of HK\$291.1 billion at 30 September 2023 (HK\$255.2 billion at 31 December 2022 and HK\$217.7 billion at 31 December 2021).

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Historical investment income

(HK\$ billion)

Year	Full year	Q4	Q3	Q2	Q1
2004	56.7	33.0	14.1	(7.2)	16.8
2005	37.8	7.3	19.0	13.6	(2.1)
2006	103.8	36.0	37.1	12.5	18.2
2007*	142.2	33.4	61.8	26.3	20.7
2008*	(75.0)	8.3	(48.3)	(20.4)	(14.6)
2009**	107.7	10.6	71.9	58.7	(33.5)
2010**	79.4	5.9	74.5	(12.1)	11.1
2011**	27.1	22.1	(41.4)	21.6	24.8
2012**	111.6	30.3	42.4	(5.6)	44.5
2013**	81.2	30.7	54.7	(23.3)	19.1
2014**	44.7	6.1	(17.8)	43.3	13.1
2015**	(15.8)	21.0	(63.8)	18.7	8.3
2016**	68.1	(23.3)	47.1	18.9	25.4
2017**	264.0	66.0	61.8	71.3	64.9
2018**	10.9	(33.6)	9.5	0.0	35.0
2019**	262.2	60.3	23.5	45.0	133.4
2020**	235.8	145.0	81.2	121.6	(112.0)
2021**	191.9	48.2	4.0	88.4	51.3
2022**	(205.4)	73.4	(113.4)	(116.6)	(48.8)
2023** (unaudited)	N/A	N/A	(5.5)	8.4	108.0

* Excluding valuation changes of the Strategic Portfolio.

** Including valuation changes of private equity and real estate investments held under the LTGP.

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The Hong Kong Mortgage Corporation Limited

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Mortgage Insurance Programme (MIP)



- Amendments have been made to the MIP since 7 July 2023:
 - For eligible properties with property value up to HK\$10 million, the maximum loan-to-value (LTV) ratio remains at 90%;
 - For eligible properties with property value above HK\$10 million and up to HK\$15 million, the maximum LTV ratio is 80% or an LTV ratio derived from a mortgage loan cap of HK\$9 million, whichever the higher; and
 - For eligible properties with property value above HK\$15 million and up to HK\$30 million, the maximum LTV ratio is 70% or an LTV ratio derived from a mortgage loan cap of HK\$12 million, whichever the higher
- Applicable eligibility criteria for residential properties under construction have been aligned with those for completed residential properties since 22 September 2023
- Special premium concession for properties valued up to HK\$15 million have been provided to the first-time homebuyers, by waiving premium on insurance coverage for the mortgage loan portion not more than 5% above the maximum LTV ratio for banks
- In 2023, as of 31 October, around 31,500 applications were approved, of which 152 were under the new coverage after the MIP revisions in July and September 2023. Over 90% of approved applications were from first-time homebuyers

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SME Financing Guarantee Scheme (SFGS)



- As of 31 October 2023, over 65,000 applications were approved under the Special 100% Loan Guarantee, amounting to about HK\$136.9 billion. The average loan amount per application was HK\$2.10 million, and the average approved loan amount per borrower was HK\$3.53 million. Over 45,900 applications (around 70%) have chosen the principal moratorium option
- As of 31 October 2023, around 35,400 applications were approved under the 80% and 90% Guarantee Products, amounting to about HK\$129.2 billion. Over 3,100 applications have chosen the principal moratorium option
- As the principal moratorium arrangement gradually expires over the coming year, banks will discuss with borrowing enterprises in difficulty possible repayment arrangements, including the partial principal repayment options under the scheme

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Other loan guarantee schemes



- **Dedicated 100% Loan Guarantee Schemes:** The schemes for the cross-boundary passenger transport and the travel industries were launched on 29 April 2023 to support their business resumption. As of 31 October 2023, 165 applications were approved, amounting to about HK\$166 million. Separately, the scheme for battery electric taxis was launched on 4 September 2023 to encourage taxi owners to replace their existing taxis with battery electric taxis
- **100% Personal Loan Guarantee Scheme:** Since its launch in April 2021, around 67,000 applications were approved, amounting to about HK\$4.7 billion. The application period of the scheme expired in end-April 2023

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Reverse Mortgage Programme



As of 31 October 2023, 6,767 applications had been received:

- Average age of borrowers: 68 years old
- Average monthly payout: HK\$17,500
- Payment terms: 10-year (21.8%); 15-year (14.3%); 20-year (12.2%); life (51.7%)
- Average property value: HK\$5.9 million
- Average property age: 31 years

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Life Annuity Business



HKMC Annuity Plan Statistics:

	Since launch	2022	2022 (Jan – Oct)	2023 (Jan – Oct)
No. of policies issued	19,029	3,254	2,823	1,500
Total premium amount (HK\$ million)	13.7	2.5	2.2	1.2
Average premium amount (HK\$)	721,000	777,000	777,000	825,000