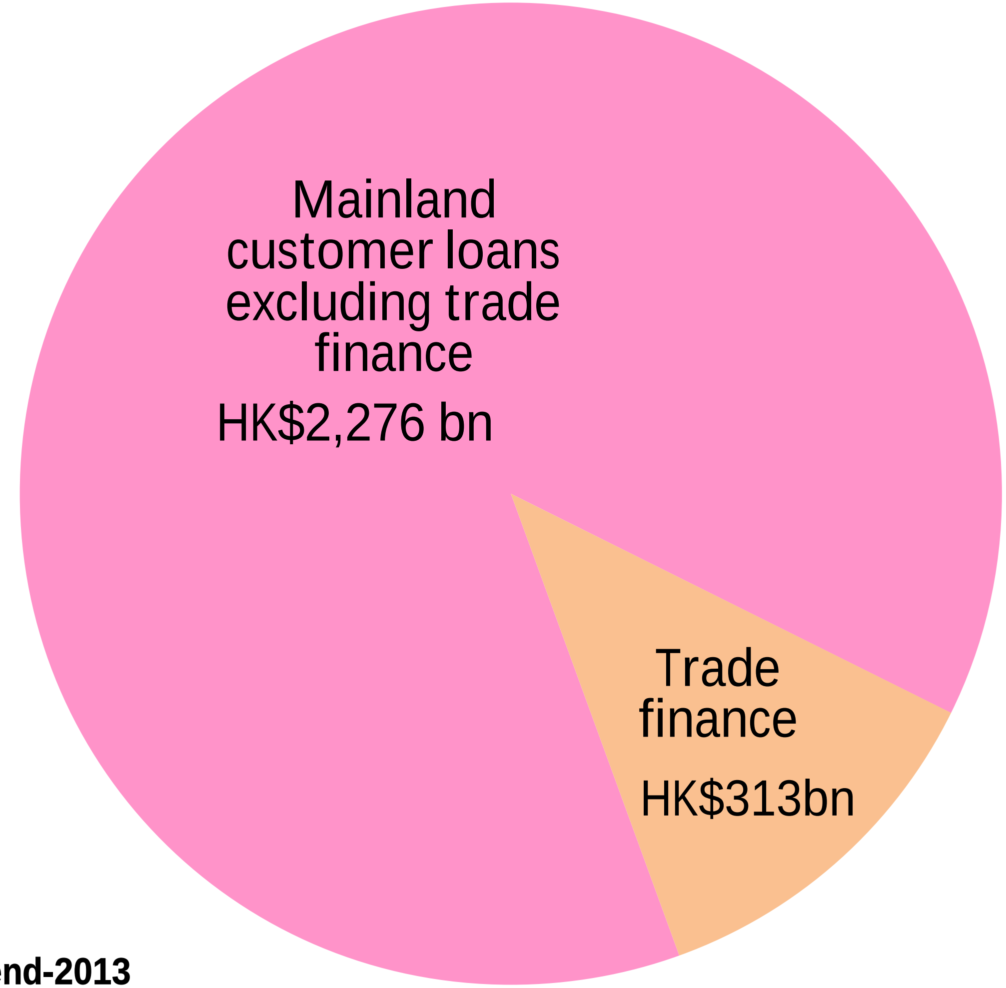
Mainland-related exposures

15 April 2014

Why this briefing?

- Elevated interest in HK banking sector's Mainland exposure
- HKMA's framework of monitoring
  - Cover the widest scope possible
  - Collect and disclose data regularly, more granularity since 2011
  - Intensified monitoring of credit growth since 2010
- Provide further analytics on Mainland-related exposures

Mainland-related lending of the Hong Kong banking sector



Position as at end-2013

Diversified Lenders: Foreign bank branches took 43% market share

Mainland customer loans excluding trade finance
HK$2,276 bn
(100%)

- **Foreign bank branches**
  HK$970 bn
  (43%)
- **HK incorporated banks' Mainland subsidiaries**
  HK$476 bn
  (21%)
- **HK incorporated banks**
  HK$830 bn
  (36%)

Foreign bank branches: Risk ultimately borne by head offices

Type of banks	Amount HK$	Risk implication
Foreign bank branches	970bn	• Head office support - Major international banks (China, Japan, Singapore, Australia, US) - HK branches represent only a small portion of head offices' balance sheets • Credit risk: ultimately borne by head offices • Liquidity risk: head office support; subject to HKMA's requirements, including SFR

Local banks: Strong financial position and subject to close supervision

Type of banks	Amount HK$	Risk implication
HK incorporated banks' Mainland subsidiaries	476bn	• Supervised by CBRC and also subject to HKMA's annual on-site examinations since 2008 • Separate capital and liquidity requirements • Classified loan ratio of 0.46% compared to 0.48% for HK retail banks
HK incorporated banks	830bn	• Strong financial position - High CAR: 15.9% - Low LD ratio: 56.3% - Low classified loan ratio: 0.48% • Subject to HKMA's on-going supervision

Borrowers are diversified

Mainland customer loans including trade finance

HK$2,589 bn

(100%)

Mainland non-private entities

HK$1,290 bn
(50%)

Mainland private entities

HK$488 bn
(19%)

Non-Mainland entities

HK$811 bn
(31%)

Risk landscapes differ among borrowers

Borrowers	Risk implication
Mainland non-private entities HK$1,290 bn (50%)	• Large SOEs: covered both local and overseas usage • Majority well-known names
Mainland private entities HK$488 bn (19%)	• Well diversified • Include top-tier companies • Risk mitigation including bank guarantees and collateral
Non-Mainland entities HK$811 bn (31%)	• International corporations & HK conglomerates for their operations in Mainland • Repayment ability based on group financials rather than their Mainland operations

What are the other exposures?

Type of exposures	Risk implication
Trade finance [HK$313 bn]	• Short term in nature • Self-liquidating • Specific loan purposes
Debt securities and other investments [HK$572 bn]	• More than half issued by Ministry of Finance and SOEs
Off-balance sheet items [HK$441 bn]	• Contingent in nature: mainly trade facilities in pipeline

Statistics recently quoted by the media

- HK's external claims on Mainland amounted to US$430bn? Yes, but …
  - Claims on banks: US$320bn
    - Surplus RMB parked at Mainland correspondent banks or PBoC
    - Trade-related claims (supervisory checks did not reveal significant findings)
    - Holdings of debt securities and other instruments
  - Claims on non-bank: US$110bn
    - Scope much narrower than that adopted by HKMA
    - Include exposures of international banks through HK branches

- HK's exposure to Mainland increased from zero in 2010 to 40% at end-2013 of the banking sector's loan book?
  - 2010: Gross external claims stood at US$168bn

Risk Assessment

- Risk monitoring framework taking into account heterogeneity
  - Diversified lender types, borrower industries, loan uses, and credit risk mitigations
  - Across-the-board hard limits not appropriate, focus on risk management
- HK as a regional platform for financial intermediation, natural and logical for:
  - International banks to conduct Mainland-related business using their HK branches
  - Mainland corporations going out and HK/International corporations going in, using our platform
- Quality of risk management is the key
  - One of the main supervisory focuses since 2010:
    - quality of risk management rather than size of exposures
    - robustness of banks' credit risk and liquidity risk management
  - Risks are properly managed but no room for complacency