

Press release

LCQ18: Measures to reduce the risks faced by local banks

Wednesday, November 16, 2011

Following is a question by the Hon Frederick Fung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (November 16):

Question:

It has been pointed out in a report issued earlier by a credit rating agency that mainland credit exposures have been accounting for an increasing percentage of local banking sector's total assets, and the uncertain operating environment in China will increase the risk profile of local banks. The report has also pointed out that the growing influence of Mainland's banks on their subsidiaries in Hong Kong could adversely affect the productivity and risk management capacity of these subsidiaries, thereby raising the prospect of local banks' outlook ratings being downgraded. In this connection, will the Government inform this Council:

(a) whether it knows the particulars of the mainland-related loans approved by local banks (including credit amounts, growth rate, and the percentage of such loans in the local banking sector's total assets, etc); the work of the Hong Kong Monetary Authority in supervising the mainland-related lending business of local banks, and whether any problem with the loan approval criteria adopted by banks has been uncovered; and

(b) given that local banks are expanding their mainland-related businesses and their mainland credit exposures are on the rise, whether the authorities have assessed and analysed the risks so derived and formulated corresponding measures, so as to minimise the risk exposure of local banks; whether the authorities have assessed the impact of Mainland's increasing demand for loans on Hong Kong (including local banks' raising deposit rates to attract capital to cater for the demand for loans on the Mainland, thereby pressing the local lending rate to adjust upwards, thus increasing the borrowing cost of local small and medium enterprises and adding burden on home mortgagors); if so, of the corresponding measures the authorities have in place to minimise the adverse impact on the local economy?

Reply:

President,

My reply to the question is as follows:

(a) The aggregate exposure of Hong Kong's banking sector to non-bank Chinese entities (including loans granted by Mainland subsidiaries of local banks) rose from HK\$1,014 billion (8.3% of total assets) at the end of 2009 to HK\$1,622 billion (11.6% of total assets) at the end of 2010, representing an increase of 60%. The rising trend continues into 2011, albeit at a slower pace. The aggregate exposure grew further by 25% from the end of 2010 to HK\$2,034 billion (13.3% of total assets) at the end of June 2011.

With the economic integration between the two places, Hong Kong banks engaging in Mainland-related business has become a natural trend. The Hong Kong Monetary Authority (HKMA) has been aware of this trend and has stepped up its monitoring of banks' business in this area, including more frequent on-site examinations, to assess whether there is any deterioration in banks' underwriting standards and their concentration risk. The HKMA has not identified major problems in banks' underwriting standards through these on-site examinations.

(b) In response to rapid development of the operations of Hong Kong banks on the Mainland, the HKMA has required banks to make regular submissions of more comprehensive and detailed information for risk analysis. The HKMA has also increased the number and frequency of regular and thematic on-site examinations of banks. In addition, the HKMA has required banks to increase their regulatory reserve to build up a bigger cushion against possible deterioration in asset quality in future.

One of the HKMA's main functions as the regulator of the banking sector is to maintain stability of the banking system. The HKMA has always required banks to conduct their business prudently and ensure proper risk management. The HKMA has also repeatedly reminded borrowers to manage their interest rate risk properly and guard against the shock arising from an increase in interest rate from an exceptionally low level.

As regards the lending rates and the distribution between loans for use in and outside Hong Kong, these are commercial decisions of individual banks depending on various factors such as credit demand of customers, risks, limits set by banks on their individual loan portfolios, availability of collaterals or guarantees, and funding cost. It is not appropriate for the HKMA to intervene in these commercial activities.

Ends