

Highlights of the Sovereign Rating on the HKSAR, PRC

Updated Rating

Long-term Local Currency: AAA_i

Long-term Foreign Currency: AAA_i

Outlook: Stable

Previous Rating

Long-term Local Currency: AAA_i

Long-term Foreign Currency: AAA_i

Outlook: Stable

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Analysts: WANG Jinzhi, He Miaomiao

Email: wangq@unitedratings.com.cn

Tel: 010-85172818-8611

Fax: 010-85171273

Add: 12F, PICC Building, No. 2 Jianguomen
Outer Street, Beijing

<http://www.unitedratings.com.cn>

Rating Opinions

United Ratings has decided to maintain the long-term local and foreign currency ratings of the Hong Kong Special Administrative Region of the People's Republic of China (hereinafter, "Hong Kong") at AAA_i, with Stable outlook.

Hong Kong's political landscape will remain stable, despite increased internal tension. In the near term, economic momentum will remain on the weaker end but the region's long-term competitiveness will remain intact. The linked exchange rate system will remain, and the impact of a downward revision of the property market on the banking system warrants further attention. Fiscal surplus and current account surplus are expected to continue, and no significant changes have been observed in the strong ability of the Hong Kong government in servicing domestic and foreign liabilities .

Reasons for Maintaining Ratings

- Internal political tension increases somewhat, but Hong Kong's political foundation, established under the framework of the Basic Law and on top of general public will, remains solid .
- The economy will demonstrate a lack of momentum in the near term, but Hong Kong's economy remains reasonably flexible with decent potential for growth .
- Fiscal surplus decreases, but the Hong Kong government's robust and conservative fiscal stance is unlikely to change .
- Hong Kong will maintain its linked exchange rate system and the risks brought forward by the declining property market on the region's banking system warrants further attention.
- Current account surplus is expected to continue, with no significant changes to foreign debt servicing abilities

Outlook

In the short term, the foundation for Hong Kong's political stability remains solid and the region's economy will go through a period of sluggishness. However Hong Kong's inherent competitive edge will guarantee its growth potential. The weakening real estate market will generate risks for the banking system, which warrants further observations, though it is less likely to spiral out of control. Fiscal

surplus and current account surplus will continue the current course and the government is expected to maintain maximum level of local and foreign debt servicing capabilities. As such, United Ratings has decided to maintain the outlook on Hong Kong's local and foreign currency ratings for the coming 1-2 years

Key Indicators of the Sovereign Rating on the HKSAR, PRC

	2011	2012	2013	2014	2015	2016 ^f
Nominal GDP (billion USD)	248.5	262.6	275.7	291.2	309.9	318.0
GDP per capita (USD)	35,284.0	36,978.1	38,477.0	40,278.6	42,430.0	43,149.4
Real GDP growth (%)	4.8	1.7	3.1	2.6	2.4	1.8
Inflation rate (%)	5.3	4.1	4.3	4.4	3.0	2.6
Total lending/GDP (%)	241.8	236.6	258.1	269.8	263.0	254.3
Domestic credit growth (%)	15.5	2.2	16.2	12.1	-4.7	-8.5
M2 growth (%)	12.9	11.1	12.4	9.5	5.5	2.4
Budget balance of governments/GDP (%)	3.8	3.2	1.0	3.2	3.1	0.3
Primary balance of governments/GDP (%)	3.6	3.0	0.8	3.0	2.9	0.1
Public debt/GDP (%)	39.1	37.9	41.3	39.5	36.9	38.2
Current-account balance/GDP (%)	5.6	1.6	1.5	1.3	3.1	2.9
Total foreign debt/GDP (%)	131.3	131.6	138.2	158.3	159.1	140.7
Total external debt/Current-account credit (%)	18.1	20.0	22.0	28.6	31.6	26.6
Short-term foreign debt/Total foreign debt (%)	18.2	19.4	21.5	19.1	18.7	19.4
International reserves/Total foreign debt (%)	87.5	91.9	81.7	71.3	72.9	76.8
Gross external financing requirement/GDP (%)	17.0	20.6	22.9	25.7	30.4	33.4

Source: Sovereign Rating Database of United Ratings.

Note: The fiscal data is of a fiscal year ending up by March 31st, "f" stands for forecasts.