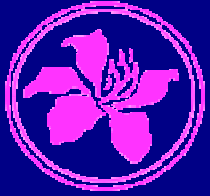


**Hong Kong Banking Sector:
2011 Year-end Review and
Priorities for 2012**

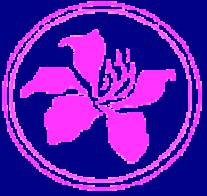
Hong Kong Monetary Authority

18 January 2012



Performance of the banking sector (1)

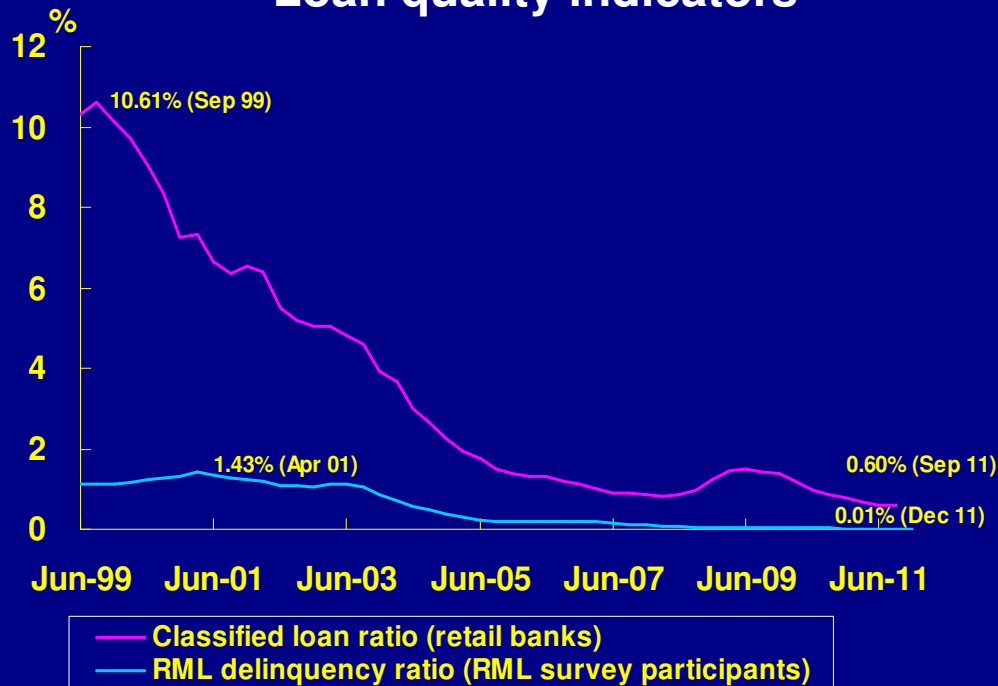
- **Global economy remained highly uncertain and volatile due to continuing European sovereign debt crisis**
- **The banking sector in Hong Kong remained resilient despite heightened uncertainties in the external environment**
- **Profitability rose underpinned by growth in both interest and non-interest income**
- **Asset quality improved further and capital / liquidity positions remained sound**



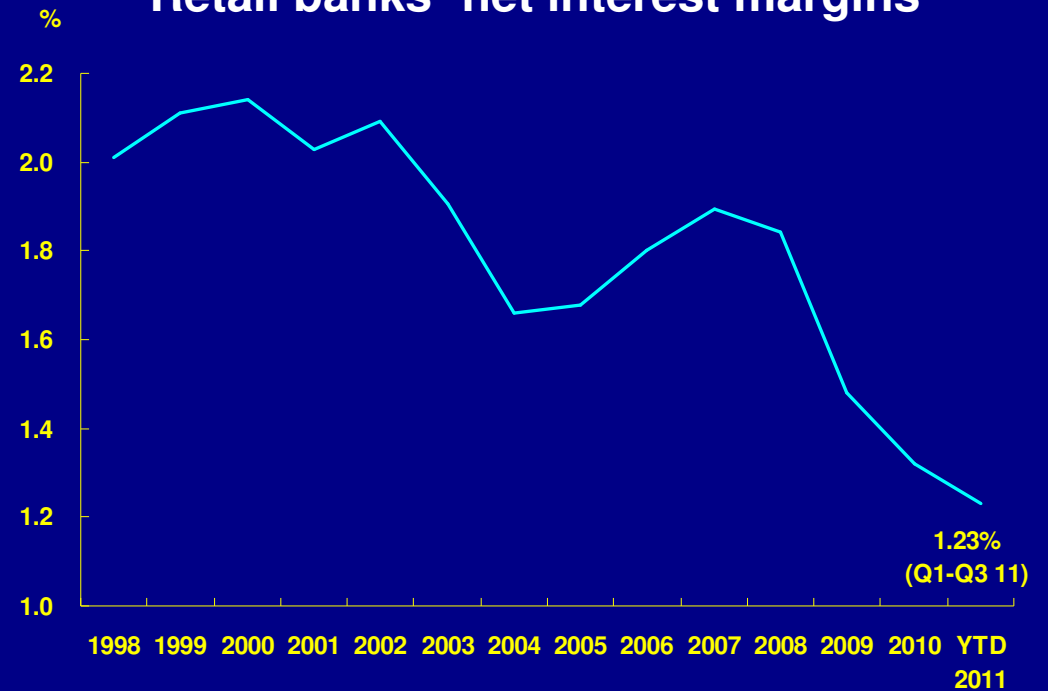
Performance of the banking sector (2)

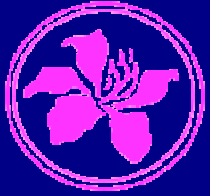
- **Loan quality improved further**
- **Net interest margins at historical low levels**

Loan quality indicators



Retail banks' net interest margins

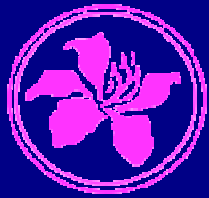




Performance of the banking sector (3)

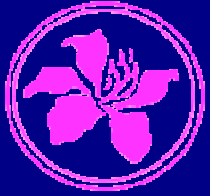
Other Indicators	<u>2011</u>	<u>2010</u>
• Total loans	+20.2% *	+28.6%
• Residential mortgage loans	+8.0% *	+15.3%
• Non-bank China exposures	+34.7% (first 3Q)	+60.3%
• Total deposits	+ 10.6% *	+7.5%
• Loan-to-deposit (L/D) ratio	66.9% *	61.6%
• HK\$ L/D ratio	84.5% *	78.1%
• CAR (locally incorporated AIs)	15.7% (Sep)	15.8%

Notes: 1. Figures relate to all AIs unless otherwise stated.
2. Figures marked with asterisks are preliminary figures.



Key issues in 2012

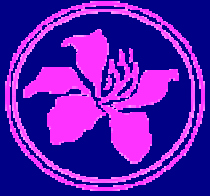
- **Surveillance of credit growth, residential mortgage lending and mainland-related exposures**
- **Impact of the European sovereign debt crisis on Hong Kong's banking Sector**
- **Basel 3 implementation**
- **Implementation of OTC derivatives market regulatory regime**
- **Continuation of credit card reform**
- **Investigation of non-Lehman-related banking complaints**



Banking supervision (1)

For 2011

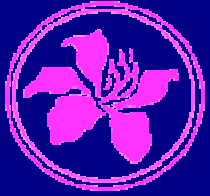
- **Credit growth showed moderation since July 2011**
 - **Regulatory reserves and matched-term funding**
- **Prudential measures on residential mortgage loans**
- **Enhanced supervision of Mainland-related business**
- **Hong Kong banking sector's risk exposure to PIIGS immaterial**
 - **Deleveraging of European banks in Hong Kong not significant**
 - **Asked banks to prepare for potential shocks**
- **Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance**



Banking supervision (2)

Priorities for 2012

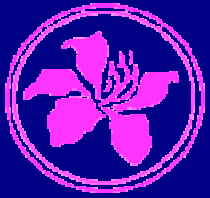
- **Surveillance of banks' credit growth, asset quality, funding strategies and liquidity positions**
- **Monitor the development of property market**
- **More on-site examinations of Als' Mainland-related business**
- **Monitor market developments including Europe**
- **Guideline and workshops on prevention of money laundering and terrorist financing**



Banking Policy (1)

For 2011

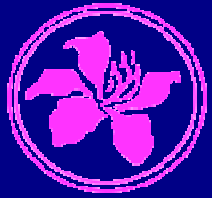
- **Legislative amendments for Basel 2.5 completed - effective on 1 January 2012**
- **Preparatory work for Basel 3 implementation**
 - **Industry consultation on proposed amendments to Banking Ordinance (October 2011)**
 - **Banking (Amendment) Bill 2011 introduced into LegCo (21 December 2011)**
 - **Development of detailed policy proposals in progress**
- **Updating supervisory guidelines (e.g. liquidity risk management, corporate governance and stress-testing)**
- **Public consultation on proposed regulatory regime for OTC derivatives market (October 2011)**



Banking Policy (2)

Priorities for 2012

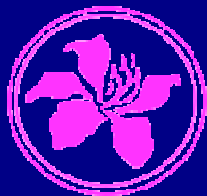
- **Basel 3 implementation**
 - **Banking (Amendment) Bill 2011**
 - **Policy proposals for: Banking (Capital) Rules, Banking (Liquidity) Rules and Banking (Disclosure) Rules**
 - **Drafting and statutory consultation on Banking (Capital) Rules and Banking (Disclosure) Rules**
 - **Implementation monitoring**
- **Updating supervisory guidelines (credit risk transfer, market risk management, supervisory review process and disclosure)**
- **Implementation of regulatory regime for OTC derivatives market**



Banking Conduct (1)

For 2011

- **Launched positive mortgage data sharing**
- **Promoted reform of credit card practices**
- **Commenced review of Code of Banking Practice**

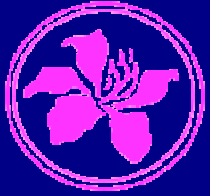


Banking Conduct (2)

For 2011 (cont'd)

Implementation of enhanced Deposit Protection Scheme (DPS)

- Enhancements effective on 1 Jan 2011
- Protection limit increased to HK\$500,000; coverage expanded to cover secured deposits; 90% of depositors fully covered
- Various measures for improving efficiency in determination of compensation payments also became effective
- Strengthened representation requirements to enhance transparency of protection status of deposits to depositors
- HKMA is chairing a peer review of deposit insurance systems launched by the Financial Stability Board; design features of DPS in Hong Kong compares favourably with other major DIS

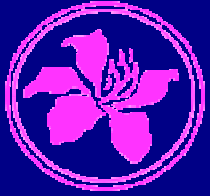


Banking Conduct (3)

Priorities for 2012

- **Consumer issues**

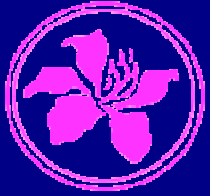
- Finalise with HKAB the last batch of enhanced credit card practices and time table for implementation
- Streamline procedures for private banks to implement enhanced sales measures
- Continue to assist the HKAB in reviewing the Code of Banking Practice
- Assist the Government in setting up the Financial Dispute Resolution Centre which is expected to come into operation in mid-2012
- Conduct on-site examinations on Als' compliance with positive mortgage data sharing and Code of Banking Practice



Banking Conduct (4)

Priorities for 2012 (cont'd)

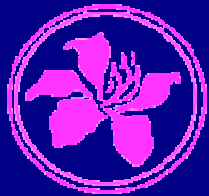
- **Implementation of DPS**
 - **Undertake a thorough review of the design of the DPS against the Core Principles for Effective Deposit Insurance Systems**
 - **Continue to monitor banks' compliance of the revised representation requirements**
 - **Continue publicity activities to maintain public awareness and develop new initiatives on public education and outreach campaigns targeted at specific groups**
 - **Enhance payout readiness, payout efficiency, and system capability in handling payouts**



Enforcement (1)

For 2011

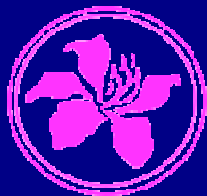
- **Enhancement of complaint handling & investigation process**
 - **Shorten processing cycle** - the complaint handling process and assessment process has been merged
 - **Reduce manpower** - a single team will be responsible for handling a complaint from inception to imposition of sanctions, if any
 - **Enhance transparency** - where a complaint is found unsubstantiated, explanation would be provided to the complainant to the extent allowed by law
 - **Bring convenience to complainants** - the Complaint Processing Centre has been established as the initial contact point for all complainants and enquiries



Enforcement (2)

For 2011 (cont'd)

- **Enhancement of complaint handling & investigation process (cont'd)**
 - **Enhance efficiency** - internal operation procedures have been streamlined
 - **Enhance work progress monitoring and procedural compliance** - the Banking Enforcement Management System has been launched
 - **Shorten interview time** - audio recording system has been installed in some interview rooms

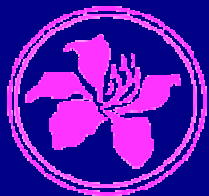


Enforcement (3)

For 2011 (cont'd)

- **The HKMA and the Securities and Futures Commission reached settlement agreements with two banks during the year in relation to their distribution of Lehman-related equity-linked notes and/or market-linked notes**
- **Achieved resolution for the majority of 21,835 Lehman-related complaint cases received**

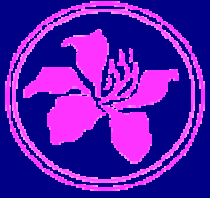
Resolved through mass settlement scheme or Enhanced Complaint Handling Procedure	18,930	86.7%
Under disciplinary process	454	2.08%
Cases closed because of insufficient evidence or disciplinary grounds	2,280	10.44%
Investigation completed and pending further action	97	0.44%
Under investigation	72	0.33%
Disciplinary sanction already imposed	2	0.01%
Total	21,835	100%



Enforcement (4)

Priorities for 2012

- **Accelerate the investigation of non-Lehman-related banking complaints**
- **Prepare for the commencement of the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance in respect of AIs**
- **Continue handling the remaining work in respect of Lehman-related complaints including the outstanding cases**



~ Thank You ~