



Hong Kong Banking Sector: 2019 Year-end Review and Priorities for 2020

**Hong Kong Monetary Authority
17 January 2020**



Outline

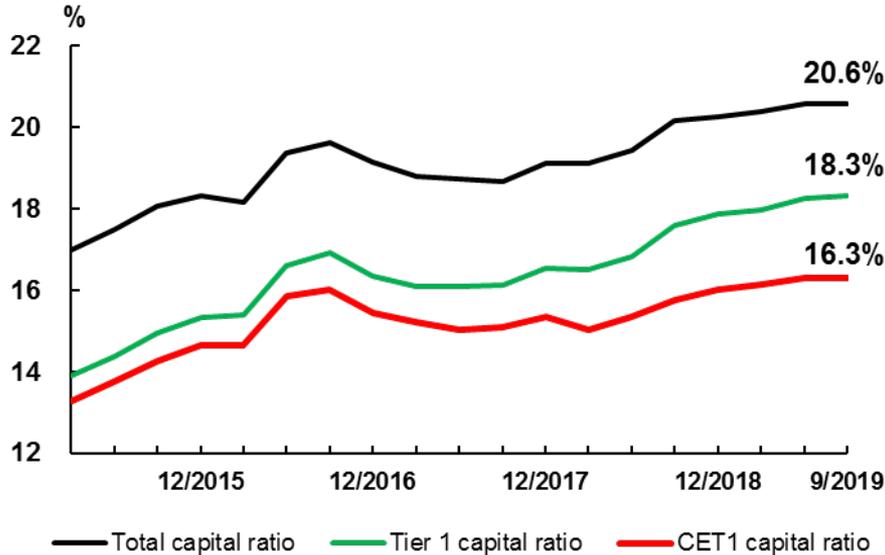
- 1. Banking Sector in 2019**
- 2. Review of Work in 2019**
- 3. Outlook for 2020: Trends and Risks**
- 4. Work Priorities for 2020**



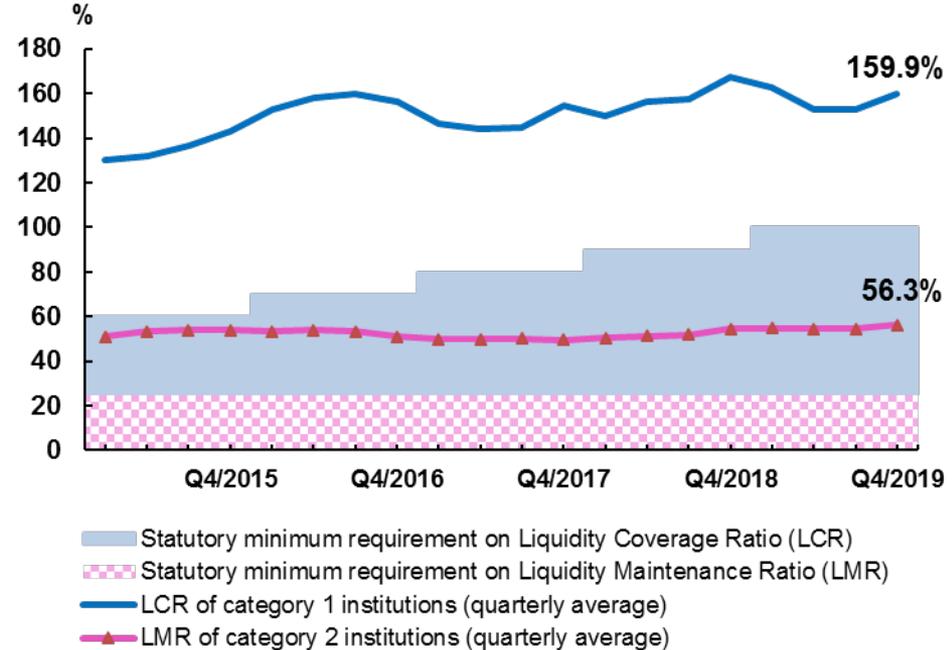
Banking Sector in 2019

Hong Kong banking sector is safe and sound

Capital Adequacy Ratios



Liquidity Ratios



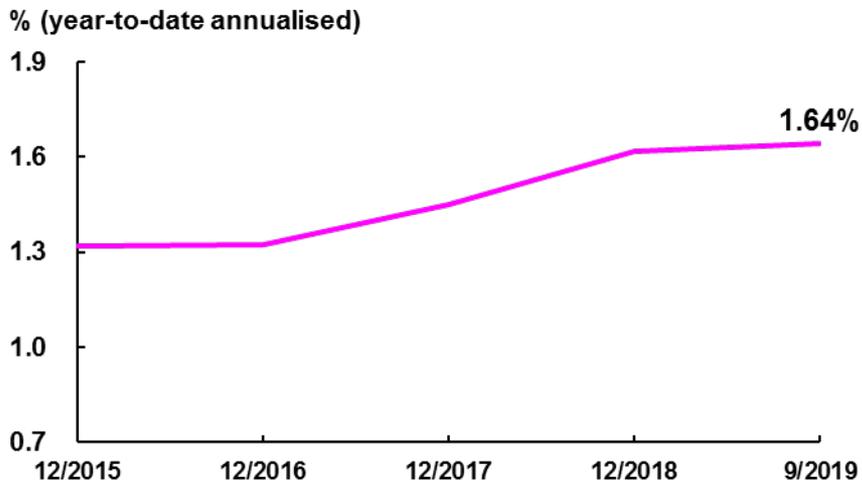
Note: The liquidity ratios for Q4/2019 are preliminary.



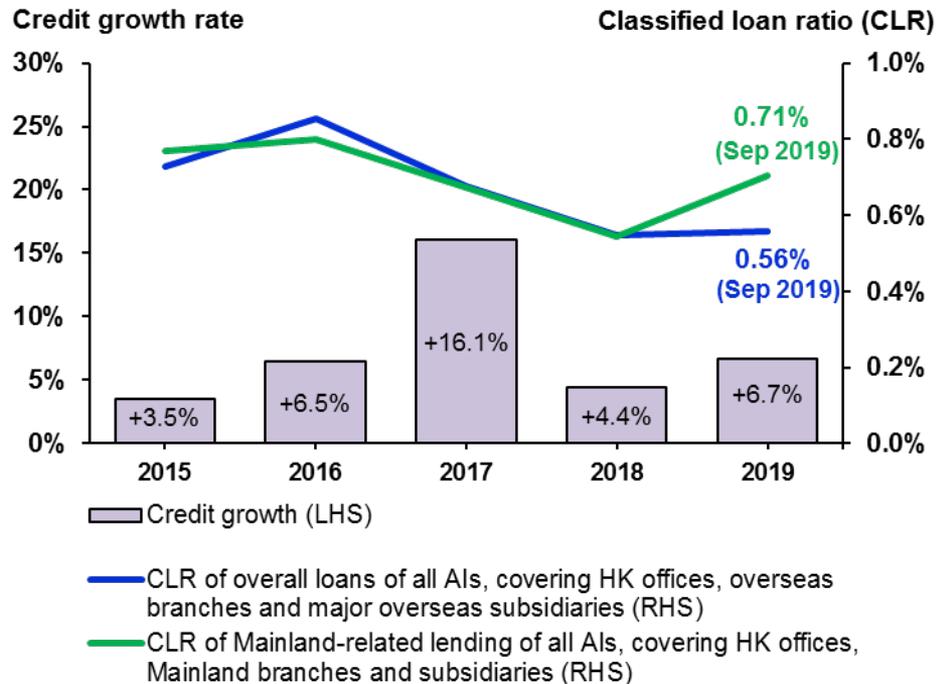
Banking Sector in 2019

Banks are profitable with good asset quality

Net Interest Margin of Retail Banks



Credit Growth and Asset Quality



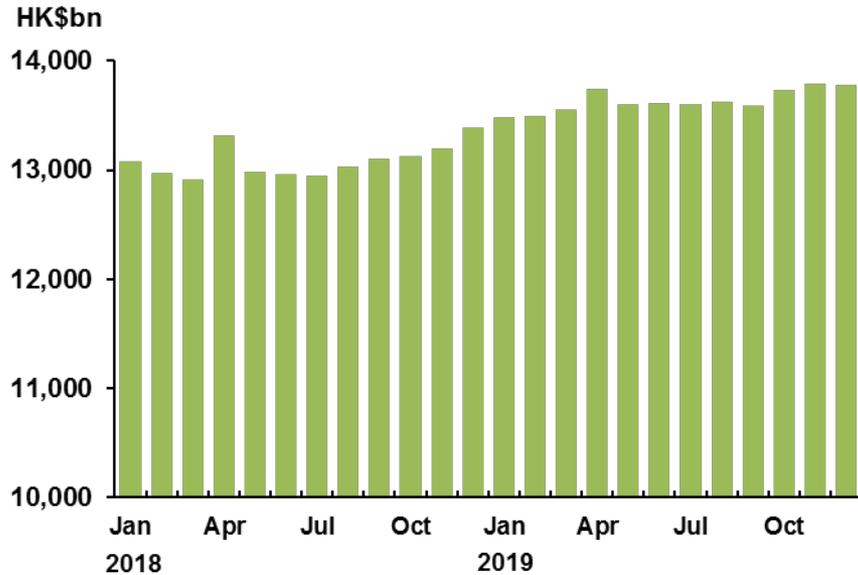
Note: The annual credit growth rate for 2019 is preliminary.



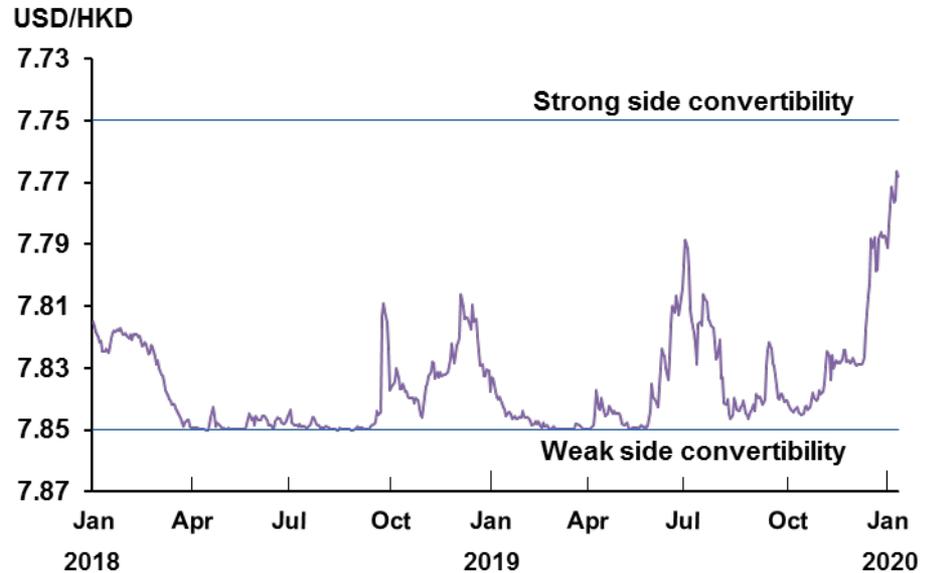
Banking Sector in 2019

Bank deposits grew steadily

Total Deposits



HKD Exchange Rate



Note: The total deposit figure for end-Dec 2019 is preliminary.



Review of Work in 2019

Banking Stability

Smart Banking

Implementation of International Standards

FATF/APG Mutual Evaluation

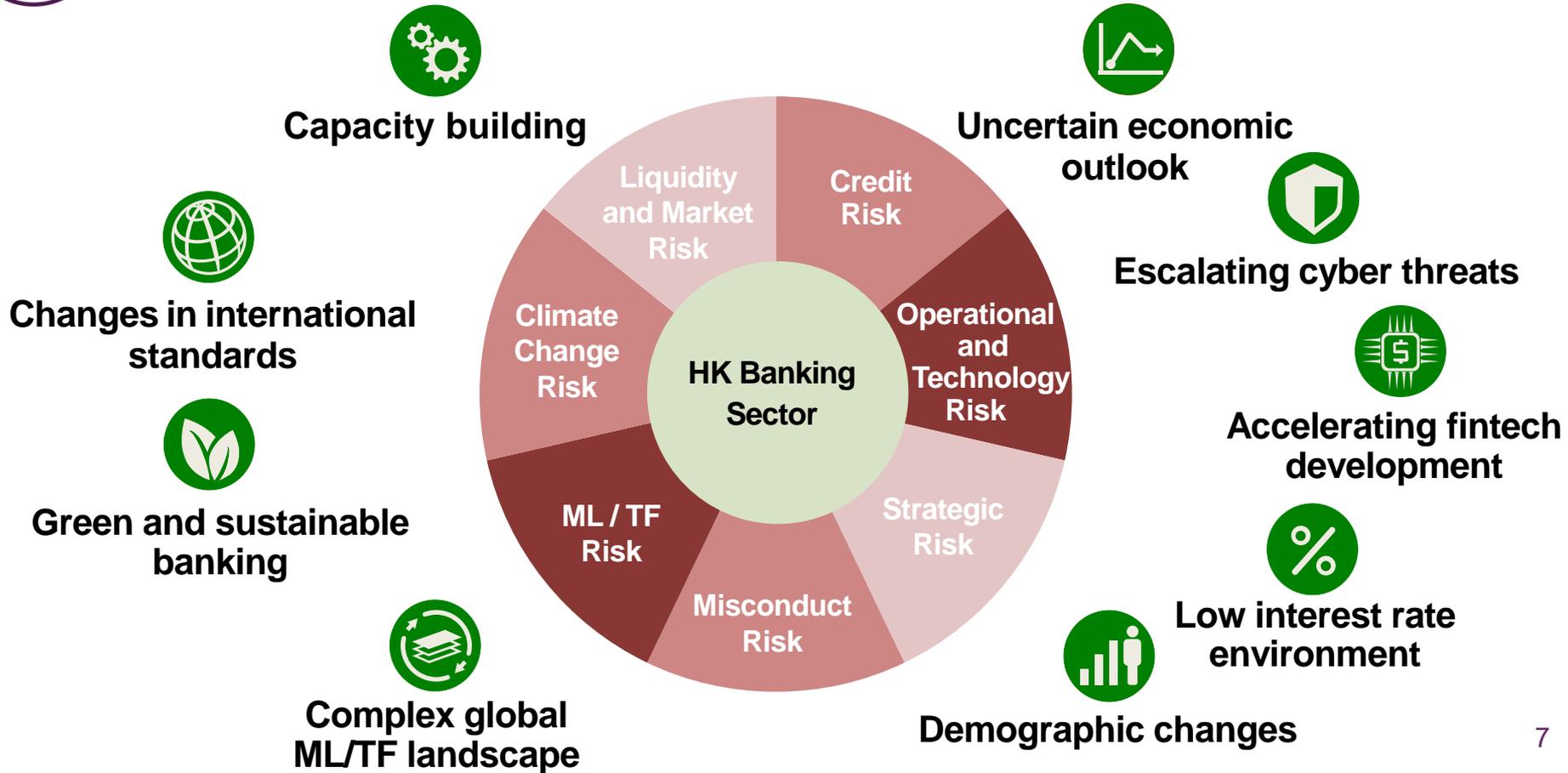
Consumer and Investor Protection

Green and Sustainable Banking

Capacity Building



Outlook for 2020: Trends and Risks





Work Priorities for 2020



Uncertain economic outlook



Credit Risk Management

- ❑ Deep-dive review on asset quality
- ❑ On-site examinations and reviews on:
 - Underwriting standards for Mainland-related lending
 - Private banking and wealth management-related lending
 - Loan classification and provisioning under HKFRS9
- ❑ Encourage SME lending to the extent permitted by prudent risk management principles



Work Priorities for 2020



Accelerating fintech development and escalating cyber threats



Supervision of Virtual Banks

- ❑ Readiness for launch of services
- ❑ Focus on management of risks

Operational & Technology Risk Management

- ❑ Supervision of cloud computing
- ❑ On-site examinations on IT governance
- ❑ Review of the CFI with emphasis on Cyber Incident Response and Recovery



Work Priorities for 2020



Accelerating fintech development



Investor and Consumer Protection in Digital Age

- ❑ Strengthen surveillance on online wealth management
- ❑ Enhance protection for online financing
- ❑ Review implications of digital financial services on Code of Banking Practice



Work Priorities for 2020



Low interest rate environment and demographic changes



Misconduct Risk Management

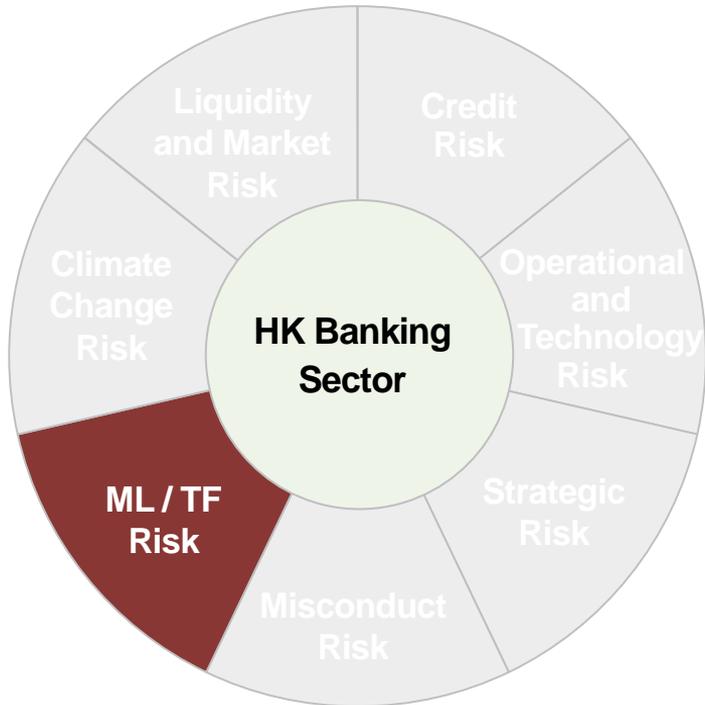
- ❑ Product focus for selling activities of
 - Securities and investment
 - Insurance and MPF
- ❑ Guidance on wealth management business



Work Priorities for 2020



Complex global ML/TF landscape



Money Laundering / Terrorist Financing Risk Management

- ❑ Adherence to international standards
- ❑ Geopolitical development and sanctions compliance risks
- ❑ Data-driven, technology-enabled AML systems



Work Priorities for 2020



Green and sustainable banking



Promotion of Green and Sustainable Banking

- ❑ Conduct assessment on banks' readiness
- ❑ Set supervisory requirements
- ❑ Study market obstacles and solutions

Climate Change Risk Management

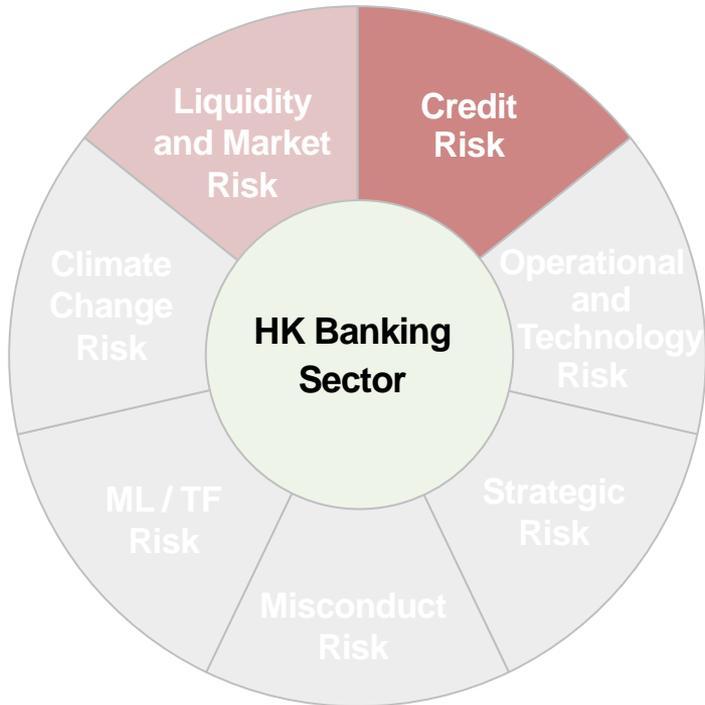
- ❑ Review banks' risk management and share industry good practices



Work Priorities for 2020



Changes in international standards



Implementation of Basel III Reforms

- ❑ Counterparty credit risk (SA-CCR)
- ❑ Market risk (FRTB)
- ❑ Basel III final package

Benchmark Transition

- ❑ Monitor banks' preparation for interest rate benchmark transition



Work Priorities for 2020



Capacity building



Financial Leadership and Talent Development

- ❑ Leadership Development Programme by the Hong Kong Academy of Finance
- ❑ Enhanced Competency Framework

Regtech Ecosystem Development

- ❑ Regtech Watch newsletters
- ❑ Promotion of Regtech adoption
- ❑ Suptech development and implementation



Work Priorities for 2020 – Summary

- Cope with emerging technology risks and escalating cyber threats**
- Protect customers in online environment**
- Further improve banks' credit risk management practices**
- Continue to align with global AML/CFT practices**
- Promote green and sustainable banking**
- Upskill the talent pool**