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

Hong Kong Monetary Authority
17 January 2020
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**

- Total capital ratio
- Tier 1 capital ratio
- CET1 capital ratio

**Liquidity Ratios**

- Statutory minimum requirement on Liquidity Coverage Ratio (LCR)
- Statutory minimum requirement on Liquidity Maintenance Ratio (LMR)
- LCR of category 1 institutions (quarterly average)
- LMR of category 2 institutions (quarterly average)

Note: The liquidity ratios for Q4/2019 are preliminary.
Banks are profitable with good asset quality

### Net Interest Margin of Retail Banks

<table>
<thead>
<tr>
<th>Year</th>
<th>Margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/2015</td>
<td>1.3</td>
</tr>
<tr>
<td>12/2016</td>
<td>1.4</td>
</tr>
<tr>
<td>12/2017</td>
<td>1.5</td>
</tr>
<tr>
<td>12/2018</td>
<td>1.64</td>
</tr>
<tr>
<td>9/2019</td>
<td>1.7</td>
</tr>
</tbody>
</table>

### Credit Growth and Asset Quality

#### Credit Growth Rate

- 2015: +3.5%
- 2016: +6.5%
- 2017: +16.1%
- 2018: +4.4%
- 2019: +6.7%

#### Classified Loan Ratio (CLR)

- 2019: 0.56% (Sep 2019)
- 2018: 0.71% (Sep 2019)

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

Bank deposits grew steadily

Total Deposits

HK$bn

14,000

13,000

12,000

11,000

10,000

Jan 2018

Apr 2018

Jul 2018

Oct 2018

Jan 2019

Apr 2019

Jul 2019

Oct 2019

HKD Exchange Rate

USD/HKD

7.73

7.75

7.77

7.79

7.81

7.83

7.85

7.87

Jan 2018

Apr 2018

Jul 2018

Oct 2018

Jan 2019

Apr 2019

Jul 2019

Oct 2019

Jan 2020

Strong side convertibility

Weak side convertibility

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

- Capacity building
- Uncertain economic outlook
- Escalating cyber threats
- Accelerating fintech development
- Low interest rate environment
- Demographic changes
- Changes in international standards
- Green and sustainable banking
- Complex global ML/TF landscape
- ML / TF Risk
- Credit Risk
- Operational and Technology Risk
- Strategic Risk
- Misconduct Risk
- Climate Change Risk
- Liquidity and Market Risk

HK Banking Sector
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
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
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