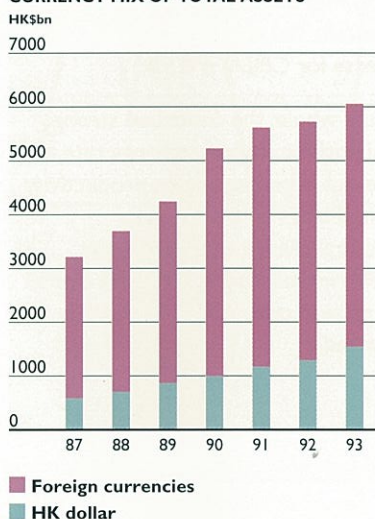


Reflecting sustained economic prosperity in Hong Kong, the banking industry enjoyed another profitable year in 1993, with a number of listed banks publishing sharply increased profits. The strong growth in regional economies, notably China, was also an important factor. Lending margins remained

CURRENCY MIX OF TOTAL ASSETS



TOTAL ASSET GROWTH BY CURRENCY



healthy throughout the year.

Total loans rose by 16% in 1993, broadly in line with the growth in nominal GDP. This was attributed to both domestic and offshore lending, which rose by 18% and 14% respectively. Largely explained by the positive valuation effect of the Japanese yen, growth in offshore lending picked up, compared with 1992.

Despite the background of buoyant property and stock markets in 1993, institutions generally adopted a prudent approach in their lending to these sectors. Some major banks took the lead in tightening their residential mortgage ceilings in 1993 and introduced other measures to discourage speculators in the property market. Private residential mortgage lending (excluding lending under the Home Ownership Scheme and Private Sector Participation Scheme) rose by 15%, in line with the growth in total loans. Other types of property lending, however, rose more rapidly.

Institutions' holdings of negotiable debt instruments, in particular certificates of deposit and Exchange Fund Bills and Notes, rose strongly, although they still account for a relatively small proportion of total assets. The increase in importance of Exchange Fund Bills and Notes in institutions' portfolios may reflect the demand to hold high quality liquidity and acceptable collateral in order to access the LAF.

This rise in total loans was largely financed by a significant rise in deposits from non-bank customers and an increase in net interbank borrowing. Due to the inflows of overseas funds, total deposits grew by 15% in 1993, though their growth was marginally less than that of total loans. Growth in HK dollar deposits was particularly strong and their share of total deposits increased to 50% in 1993. This improved the overall HK dollar loan to deposit ratio.

TOTAL ASSETS

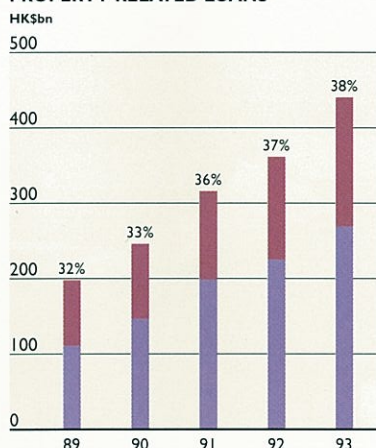
Having increased by only 2% in 1992, total assets rose by 6% in 1993. This was however only half the average annual growth rate in the four years to 1992. The rise in loans to non-bank customers largely contributed to the growth and these now account for 47% of total assets. Interbank lending continued to decline, reducing its share of total assets from 48% in 1992 to 44% in 1993.

Total lending to non-bank customers

The growth in total lending rose from 10% in 1992 to 16% in 1993, due to the more rapid rise in both domestic and offshore loans.



PROPERTY-RELATED LOANS



■ HML
■ BPL

HML - Home mortgage loans (includes lending under the Home Ownership Scheme & the Private Sector Participation Scheme).

BPL - Loans for property development and investment.
% above each bar shows the share of property-related loans as a percentage of loans for use in Hong Kong.

Domestic lending

Loans for use in Hong Kong rose by 18% in 1993 against 11% in 1992. Most sectors saw increased growth, with building, construction, property development and investment, financial concerns, visible trade financing and residential mortgages recording the largest increases. Lending in foreign currencies rose more rapidly than that in HK dollars and at a much faster pace (19%) than in 1992.

The growth rate of loans for building, construction, property development and investment accelerated from 15% in 1992 to 26% in 1993. Most of the increase was accounted for by lending for the development of, and investment in, residential, commercial and other properties.

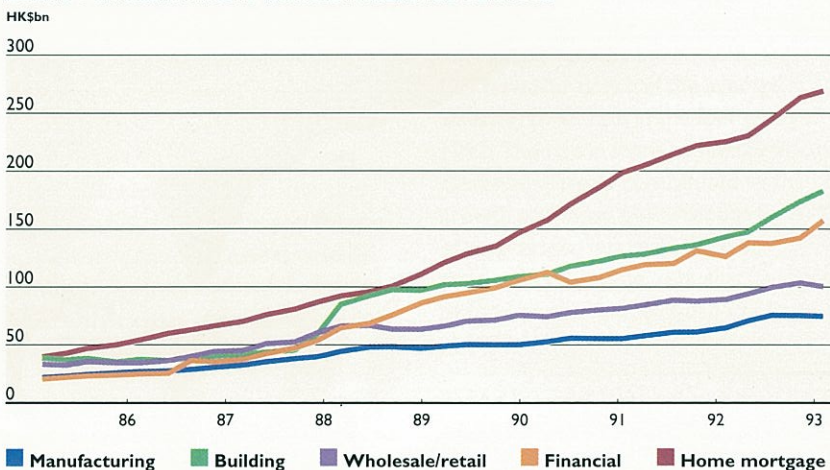
Following the adoption of the 70% mortgage ceiling and other voluntary restrictions introduced by institutions, the rise in private residential mortgage loans (excluding loans under the Home Ownership Scheme and Private Sector

criteria by certain banks in July and August, including a reduction in loan to value ratios for the finance of more expensive properties. This, accompanied by the deterrent effect on demand of increased prices, resulted in more subdued conditions in the final quarter of the year. In December, however, there were signs of increased demand for loans and of a further sharp upward movement in property prices.

Reflecting these developments, the share of property-related loans in total domestic loans continued to rise, by 1% to 38% in 1993. The Monetary Authority continued to monitor this trend closely and urged institutions to keep their overall lending to the property sector within prudent limits.

Amidst an active stock market, share financing loans rose by 37% in 1993. They fluctuated widely during the year in response to financing needs for IPOs; in total there were 63 IPOs in 1993 for which subscription monies amounted to HK\$1,469bn. At the end of the year,

LOANS FOR USE IN HONG KONG BY SELECTED SECTORS



Participation Scheme) reduced from 35% in 1991 to 14% and 15% in 1992 and 1993 respectively. The rise in 1993 was broadly in line with the growth in nominal GDP, despite wide swings in lending during the year. After a marked slowdown in the last quarter of 1992 and early 1993, lending surged during the summer in line with sharply increased market activity. This prompted a further tightening of lending

however, such loans accounted for only 2% of total domestic lending.

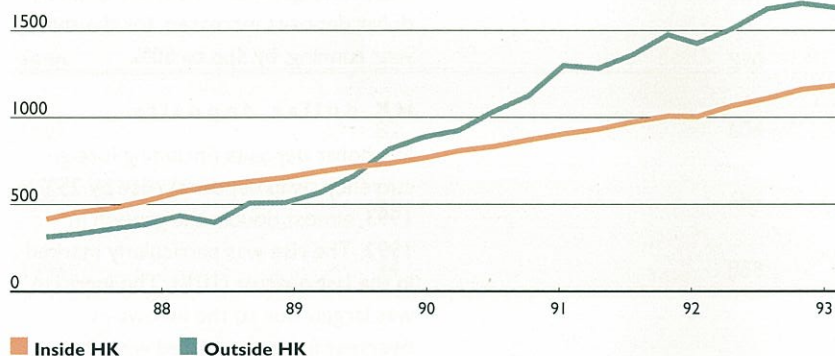
Lending to financial concerns rose strongly, by 27% in 1993 against 8% in 1992, with loans to finance companies (21%) and investment companies (42%) accounting for the growth.

Including home mortgage loans, the share of loans to individuals in domestic

LOANS FOR USE INSIDE AND OUTSIDE HONG KONG

HK\$bn

2000



lending rose slightly to 31% in 1993. This reflected the gradual continuing shift in the industry's loan portfolio towards the personal sector; credit card advances (39%) and other consumer loans (23%) grew strongly in 1993.

The growth of trade financing loans in 1993 (16%) was broadly in line with that of total trade.

Offshore lending

Offshore lending is mainly in foreign currencies and is largely affected by the Euro-yen activities of the branches of Japanese banks in Hong Kong. The rise in these loans, which picked up from 10% in 1992 to 14% in 1993, was largely explained by the positive valuation effect of the Japanese yen.

Investments

Institutions continued to hold more liquid assets such as negotiable certificates of deposit and other debt instruments. The former rose by 29% and institutions' holdings of Exchange Fund Bills and Notes increased by 36%, following a 47% rise in 1992.

FUNDING

Over half of the rise in total lending was funded by an increase in customer deposits, which rose by HK\$219bn in 1993. There were however divergent movements in domestic and foreign currency balance sheets. Deposits in

HK dollars rose by more than loans and, with other HK dollar liabilities (such as certificates of deposit) also increasing by more than other assets, the resultant surplus was reflected in a reduction in net interbank borrowing and some switching into other currencies. By contrast, the growth in lending in foreign currencies far outstripped that in deposits, resulting in a substantial increase in net interbank borrowing.

Net interbank borrowing

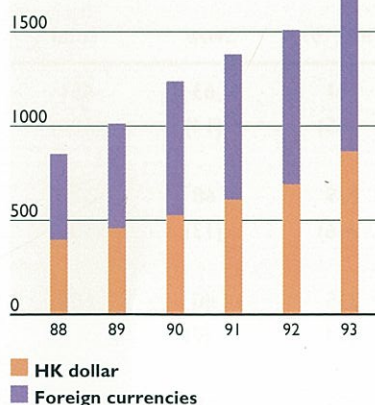
Reflecting the above movements, total net interbank borrowing rose by HK\$166bn, mainly due to reduced placements with head offices abroad.

As in previous years, banks in Hong Kong continued to be net borrowers from banks in China, reflecting the continuing integration of the two economies. However, in the last quarter of 1993, the banking system's net HK dollar liabilities to banks in China fell by HK\$14bn or 32%. A similar development had occurred in the last quarter of 1992 (when a decline of 19% was recorded). Some of the fall was reversed in January 1994.

CURRENCY MIX OF CUSTOMER DEPOSITS

HK\$bn

2000



Adjusted for swap deposits

Total customer deposits

Total deposits rose by 15% in 1993, compared with 9% in 1992, with HK dollar deposits accounting for most of the overall growth. The share of HK dollar deposits increased, for the third year running, by 4pp to 50%.

HK dollar deposits

HK dollar deposits (including foreign currency swap deposits) rose by 25% in 1993, almost double the growth in 1992. The rise was particularly marked in the last quarter (10%). The increase was largely due to the inflows of overseas funds associated with the stock market and other investment activities.

Time deposits rose significantly, by 34% in 1993, probably due to higher deposit rates offered by a number of banks to attract larger and longer-term deposits. Reflecting this, non-HKAB governed time deposits rose by 45% in 1993 as against 27% in 1992. Longer-term time deposits such as those between one and three months and over three

months rose particularly sharply. Savings deposits and demand deposits also showed healthy, albeit more modest, increases (15% and 20% respectively).

The narrowing gap between swap deposit yields and deposit rates governed by HKAB rules explained the slow growth in swap deposits during the first half of 1993. However, these deposits rose strongly in the second half as the relative yields moved in their favour.

The banking sector's HK dollar loan to deposit ratio improved significantly from 119% to 112% during the year as deposit growth outstripped loans. The locally incorporated banks' ratio has stayed at around 75% for the last five years whilst the Chinese banks' ratio improved from 92% in 1991 to 80% in 1993, due to their deposit growth during this period. Other banking groups had ratios well in excess of 100% because of their general reliance on wholesale funding.

COMPOSITION OF HK DOLLAR CUSTOMER DEPOSITS ^(a)

HK\$bn	Demand	Savings	Time ^(b)	Swap	Total
1989	51 (11)	135 (30)	201 (45)	63 (14)	451 (100)
1990	54 (10)	159 (31)	239 (46)	68 (13)	520 (100)
1991	69 (11)	229 (38)	265 (44)	40 (7)	604 (100)
1992	87 (13)	245 (36)	293 (43)	59 (9)	684 (100)
1993	105 (12)	282 (33)	400 (47)	72 (8)	858 (100)

(a) Figures in brackets show the percentage shares.

(b) Not including swap deposits.

HK DOLLAR NET INTERBANK LIABILITIES AND CUSTOMER DEPOSITS

HK\$ bn

	Net interbank liabilities	Customer deposits (a)
1989	62	451
1990	62	520
1991	82	604
1992	61	684
1993	34	858

(a) Adjusted to include swap deposits.

HK DOLLAR LOAN/CUSTOMER DEPOSIT RATIO (a)

		1989	1990	1991	1992	1993
Local banks		0.76	0.75	0.75	0.76	0.75
Chinese banks		0.93	0.87	0.92	0.88	0.80
Multi-branch	Japan	4.42	4.34	5.35	4.85	3.99
foreign	USA	1.34	1.33	1.49	1.26	1.21
banks	Others	1.43	1.33	1.34	1.36	0.82
Single-branch	Japan	17.62	15.54	11.59	13.56	6.58
foreign	USA	3.07	2.92	3.72	3.36	3.08
banks	Others	2.91	3.56	3.71	5.23	3.28
All banks		1.13	1.11	1.11	1.09	1.02
All rlbs		2.77	2.87	4.18	4.47	9.18
All dtcs		1.29	1.64	2.73	3.68	4.42
All institutions		1.17	1.17	1.20	1.19	1.12

(a) Adjusted to include swap deposits.

Foreign currency deposits

Foreign currency deposits (excluding swap deposits) rose by 6% in 1993, the same as in 1992, and at a much slower rate than those in HK dollars. It is possible that depositors might have shifted some of their foreign currency deposits into HK dollars to take advantage of investment opportunities, particularly in the local stock market. Within the overall total, growth in US dollar deposits (excluding swap deposits) slowed down from 25% in 1992 to only 8% in 1993. The rise in US dollar deposits was partly caused by some Japanese banks placing funds raised by issues of subordinated debt (through finance subsidiaries) with their branches in Hong Kong. Growth in non-US dollar foreign currency deposits was subdued, reflecting the depreciation of most of those currencies and less favourable interest rate differentials.

CAPITAL

The capital base of locally incorporated institutions continued to strengthen in 1993. Apart from the effect of increased profit retentions, a number of institutions raised additional capital through issues of shares and debt securities. As a result, the consolidated capital adequacy ratio for all locally incorporated institutions improved to 17% at end-1993, compared with 16% a year earlier.

The improvement in the ratio also reflected a decline in outstanding foreign exchange contracts and direct credit substitutes. On the other hand, other off-balance sheet items, such as interest rate contracts and transaction-related contingencies, increased markedly. The growth in on-balance sheet assets was mainly in residential mortgages and other loans which attract a 100% risk weight.

NET HK DOLLAR LIABILITIES TO BANKS OUTSIDE HK

HK\$bn

100

80

60

40

20

0

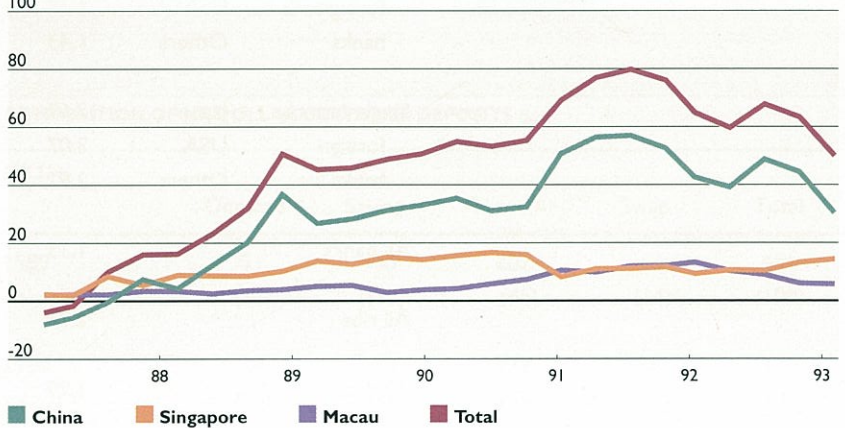
-20

China

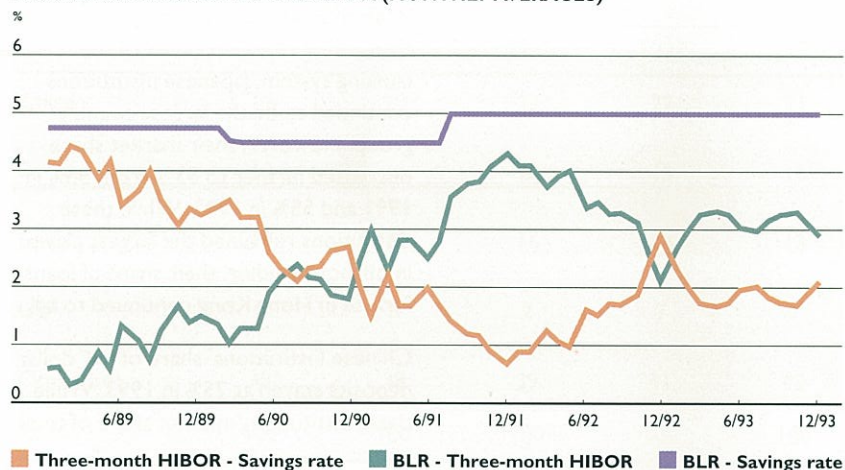
Singapore

Macau

Total



HK DOLLAR INTEREST DIFFERENTIAL (MONTHLY AVERAGES)



PROFITABILITY

With the continued expansion of the Hong Kong economy, the industry had another successful year in 1993.

Published profits of the locally incorporated listed banks, after providing for taxation and transfers to inner reserves, rose sharply with some recording increases in the 40% to 50% range.

Reflecting higher lending volumes partly offset by the effect of lower average interest rates, net interest income increased by 16% in 1993, compared with 23% in the previous year. The average spread between BLR and three-month HIBOR fell from 3.4% in 1992 to 3.1% in 1993, but the margin between BLR and the savings deposit rate remained stable at 5%.

Fees and commissions, the major component of non-interest income, increased by 23% in 1993. Income from trading in investments was also buoyant, reflecting the growth in the stock market during the year. Income from foreign exchange operations was, however, more subdued.

Growth in operating expenses was well contained, rising by not much more than the rate of inflation. The bad debt

charge fell slightly both in absolute terms and as a percentage of loans (to 0.12% at end-1993 compared with 0.15% a year earlier).

The industry's cost-income ratio, defined as the percentage of operating costs to total income, was 38% in 1993, compared with 39% in 1992.

HONG KONG'S ROLE AS AN INTERNATIONAL FINANCIAL CENTRE

The banking system in Hong Kong continued to be a net supplier of funds to most of the world in 1993. At end-1993, net claims on overseas customers, banks and non-banks, stood at HK\$313bn. As in the past, non-bank customers of Japanese institutions were the most significant taker of funds, reflecting the Euro-yen business channelled through branches of Japanese banks in Hong Kong.

Elsewhere, the banking system was a larger net taker of funds from Singapore and Europe during 1993 while reducing its net claims on North America and the Caribbean and increasing those on Thailand and China. As noted earlier, the latter reflected the reduction in net liabilities to banks in China which occurred mainly in the final quarter of the year.

MARKET SHARES

With their assets representing more than half of the total assets of the banking system, Japanese institutions continued to be the largest country group. However, their market share decreased further to 53%, from 58% in 1991 and 55% in 1992. While these institutions remained the largest player in offshore lending, their share of loans for use in Hong Kong continued to fall.

Chinese institutions' share of HK dollar deposits stayed at 25% in 1993. While these institutions' market share of total

assets increased slightly, by 1pp to 10% in 1993, their share of loans for use in Hong Kong decreased by 1pp, reversing the trend of the previous two years. US and European institutions' shares of total assets and loans for use in Hong Kong were stable, whilst the former's market share of HK dollar deposits declined from 6% to 5%.

Analysed by type of institution, there was a further movement in loan and deposit business to the licensed banks. This reflected, in part, the decline in the number of deposit-taking companies.

MARKET SHARE OF TOTAL ASSETS FOR INSTITUTIONS BY COUNTRY OF OWNERSHIP (%)

	1989	1990	1991	1992	1993
China	8	8	8	9	10
Europe	13	12	11	12	12
Japan	56	58	58	55	53
USA	6	6	5	5	5
Others (c)	17	16	18	19	21
Total	100	100	100	100	100

MARKET SHARE OF LOANS FOR USE IN HK (a) FOR INSTITUTIONS BY COUNTRY OF OWNERSHIP (%)

	1989	1990	1991	1992	1993
China	14	13	15	17	16
Europe	18	17	16	16	16
Japan	25	26	24	21	20
USA	9	10	9	9	9
Others (c)	34	34	36	37	40
Total	100	100	100	100	100

**MARKET SHARE OF HK DOLLAR ASSETS FOR INSTITUTIONS BY
COUNTRY OF OWNERSHIP (%)**

	1989	1990	1991	1992	1993
China	19	20	22	22	21
Europe	18	16	16	15	16
Japan	17	17	16	14	13
USA	8	8	7	7	7
Others (c)	38	38	39	41	43
Total	100	100	100	100	100

**MARKET SHARE OF HK DOLLAR DEPOSITS ^(b) FOR INSTITUTIONS BY
COUNTRY OF OWNERSHIP (%)**

	1989	1990	1991	1992	1993
China	21	22	23	25	25
Europe	13	12	11	11	11
Japan	4	5	4	4	5
USA	6	6	5	6	5
Others (c)	55	54	56	55	54
Total	100	100	100	100	100

(a) Includes trade financing loans but excludes loans to finance trade not touching Hong Kong.

(b) Adjusted to include swap deposits.

(c) Includes institutions in the HSBC Holdings group.