

Developments in the Banking Sector

by Banking Supervision Department

HIGHLIGHTS OF KEY TRENDS

Banking sector performance

Overview

- The Hong Kong banking sector remains resilient with strong capital and liquidity buffers. While the classified loan ratio increased in the first quarter of 2024, the asset quality of the banking sector stayed healthy.

Profitability

- The aggregate pre-tax operating profit of retail banks increased by 5.0% year on year in the first quarter of 2024 (Exhibit 1). This was mainly due to an increase in income from investments held for trading, which was partly offset by increases in total operating expenses and loan impairment charges. Retail banks' net interest margin narrowed to 1.53% in the first quarter of 2024 from 1.56% in the same period last year (Exhibit 2).

Balance sheet trends

- Total loans of the banking sector decreased by 1.0% in the first quarter of 2024 (Exhibit 5). Among the total, loans for use in Hong Kong decreased by 1.2%, while loans for use outside Hong Kong and trade finance both declined by 0.5%. Mainland-related lending decreased by 2.0% during the same period (Exhibit 6).
- Banking deposits remained stable. Total deposits edged down by 0.2% in the first quarter of 2024. Among the total, Hong Kong dollar deposits increased by 0.1% while US dollar deposits decreased by 0.6%. The overall loan-to-deposit ratio decreased slightly to 62.3% at the end of March 2024 from 62.8% a quarter earlier (Exhibit 7).

Loan quality, liquidity conditions and capital adequacy

- The classified loan ratio of the banking sector increased to 1.79% at the end of March 2024 from 1.56% a quarter earlier. The classified loan ratio for Mainland-related lending also increased to 2.77% from 2.58% (Exhibit 10). During the same period, the delinquency ratio of credit card lending edged up to 0.33% from 0.30%, while that of residential mortgage loans increased slightly to 0.09% from 0.08% (Exhibit 12).
- The banking sector continued to be liquid and well capitalised. The average Liquidity Coverage Ratio of category 1 institutions was 176.1% in the first quarter of 2024, well above the statutory minimum requirement of 100% (Exhibit 14). The total capital ratio of locally incorporated authorized institutions (AIs) stood at 21.1% at the end of March 2024 (Exhibit 16), well above the international minimum requirement of 8%.

The key performance indicators of the banking sector are provided in the Appendix.

Banking sector performance

Profitability

Exhibit 1

Pre-tax operating profit of retail banks' Hong Kong offices

Key items	Change of pre-tax operating profit Q1 2024 vs Q1 2023	
	Percentage change	Contribution to the percentage change in pre-tax operating profit (ppt)
Income from investments held for trading	+143.1%	+13.5
Total operating expenses	+8.5%	-5.5
Loan impairment charges	+78.5%	-4.0
Pre-tax operating profit	+5.0%	

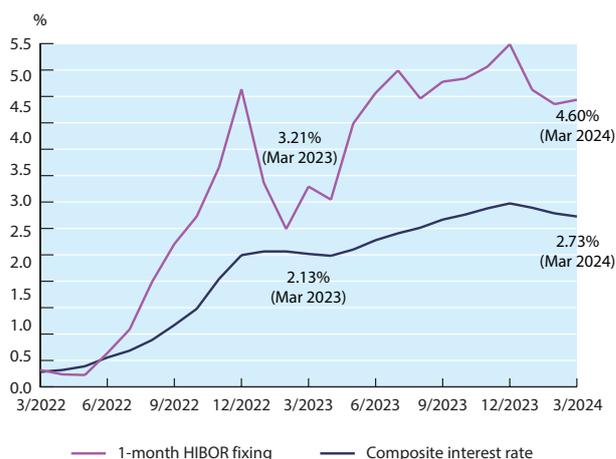
Exhibit 2

Net interest margin (year-to-date annualised) of retail banks narrowed in the first quarter of 2024



Exhibit 3

Both the Hong Kong dollar interbank interest rates and composite interest rate receded from their recent peaks in late 2023



Notes:

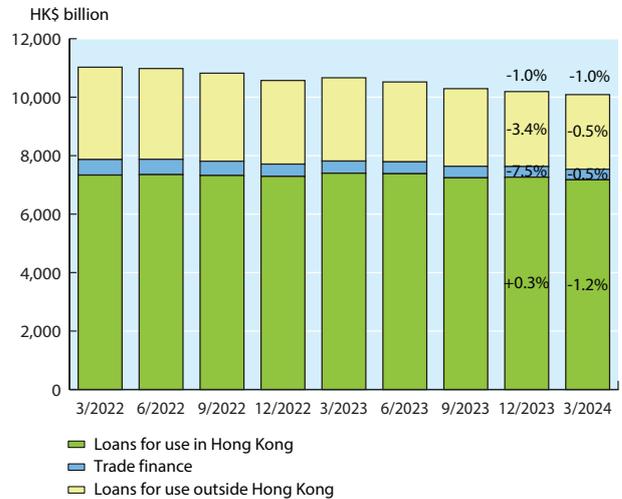
1. HIBOR fixing (monthly average) refers to the Hong Kong Interbank Offered Rates released by the Hong Kong Association of Banks.
2. The composite interest rate is a weighted average interest rate of all Hong Kong dollar interest-rate-sensitive liabilities of retail banks.

Exhibit 4

Cost-to-income ratio (year to date) of retail banks was broadly stable in the first quarter of 2024

**Loans and deposits****Exhibit 5**

Total loans decreased by 1.0% in the first quarter of 2024



Notes:

- 1 "Loans for use outside Hong Kong" include "others" (i.e. unallocated).
- 2 Percentage denotes quarter-on-quarter growth rate.

Within loans for use in Hong Kong, the percentage changes in the amount of credit extended to the key economic sectors in the first quarter of 2024 were:

Key items	Percentage change	Contribution to the percentage change in loans for use in Hong Kong (ppt)
Financial concerns	-7.5%	-0.92
Wholesale and retail trade	-4.7%	-0.19
Property lending (including residential mortgage loans and loans for property development and investment)	-0.3%	-0.16
Loans for use in Hong Kong	-1.2%	

Exhibit 6

Mainland-related lending

	Dec 2023 HK\$ billion	Mar 2024 HK\$ billion
Mainland-related loans excluding trade finance	3,978	3,891
Trade finance	247	249
Total	4,226	4,140

Exhibit 7

Total loan-to-deposit ratio decreased slightly in the first quarter of 2024

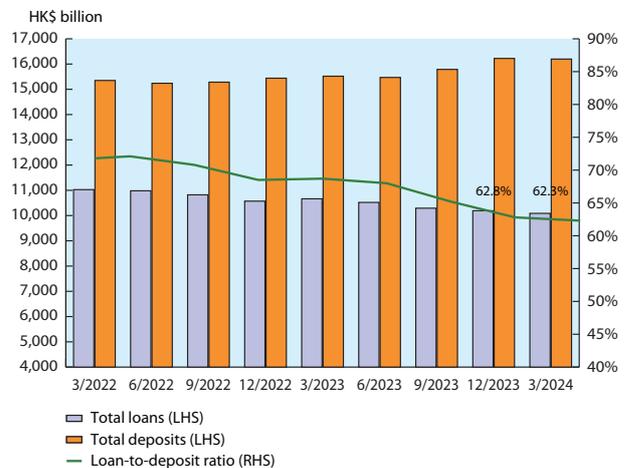


Exhibit 8

Hong Kong dollar loan-to-deposit ratio edged down in the first quarter of 2024

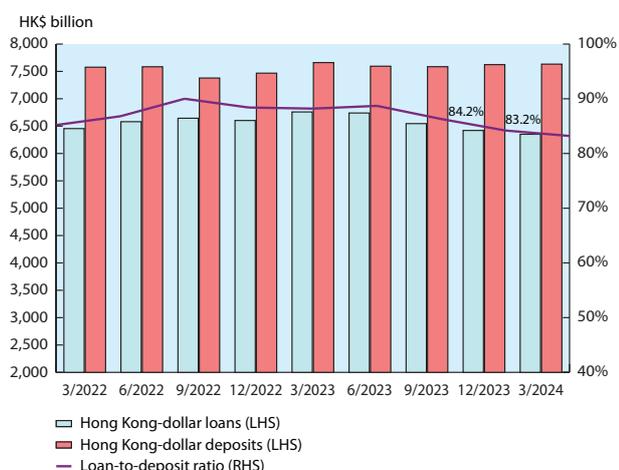
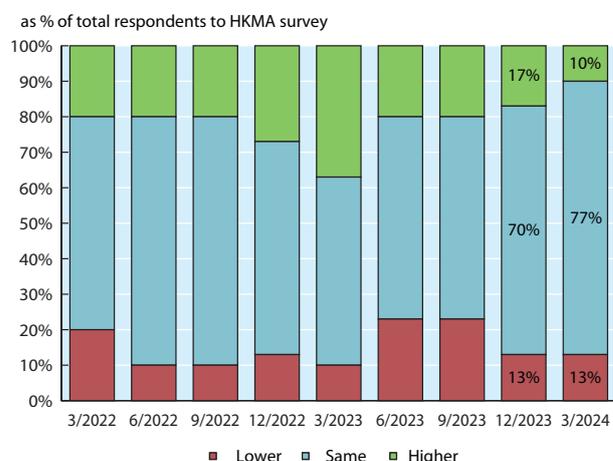


Exhibit 9

The proportion of respondents to the Hong Kong Monetary Authority Opinion Survey on Credit Conditions Outlook expecting loan demand to be lower in the next three months remained unchanged



Note: Expectation of loan demand to change in the next three months relative to the past three months.

Loan quality

Exhibit 10

Quality of loans and advances of the banking sector*

	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024
	<i>% of total loans</i>				
Special mention loans	1.98	1.93	1.90	2.03	2.05
Classified loans (gross)	1.46	1.50	1.61	1.56	1.79
of which:					
Substandard	0.55	0.55	0.54	0.59	0.65
Doubtful	0.80	0.80	0.87	0.76	0.90
Loss	0.11	0.16	0.21	0.22	0.24
Classified loans (net of specific provisions)	0.83	0.84	0.87	0.83	1.02
Overdue > 3 months and rescheduled loans	1.00	1.09	1.23	1.24	1.48
of which:					
Overdue > 3 months	0.87	0.93	1.06	1.07	1.27
Rescheduled loans	0.13	0.16	0.17	0.17	0.21
	<i>% of Mainland-related lending</i>				
Classified loans (gross) of Mainland-related lending**	2.26	2.41	2.68	2.58	2.77

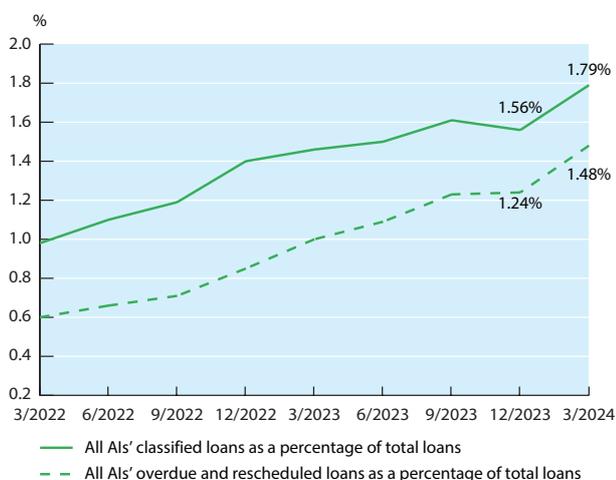
Note: Figures may not add up to total due to rounding.

* Unless otherwise stated, figures covered all AIs' Hong Kong offices, as well as locally incorporated AIs' overseas branches and major overseas subsidiaries.

** Figures covered all AIs' Hong Kong offices, as well as locally incorporated AIs' Mainland branches and subsidiaries.

Exhibit 11

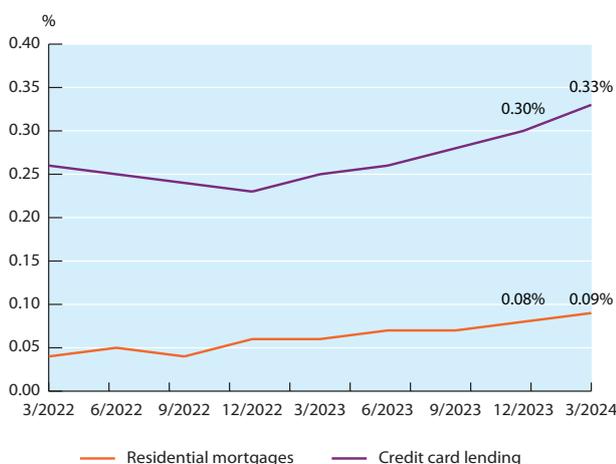
The banking sector's overall asset quality deteriorated in the first quarter of 2024 but remained healthy



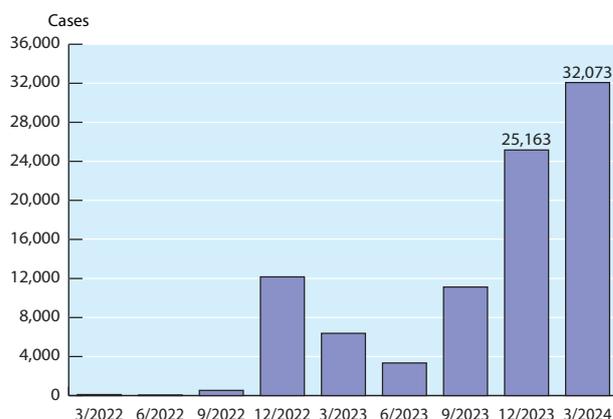
Note: Figures covered Hong Kong offices, overseas branches and major overseas subsidiaries.

Exhibit 12

Delinquency ratios of credit card lending and residential mortgages edged up in the first quarter of 2024

**Exhibit 13**

The number of negative equity cases* increased in the first quarter of 2024

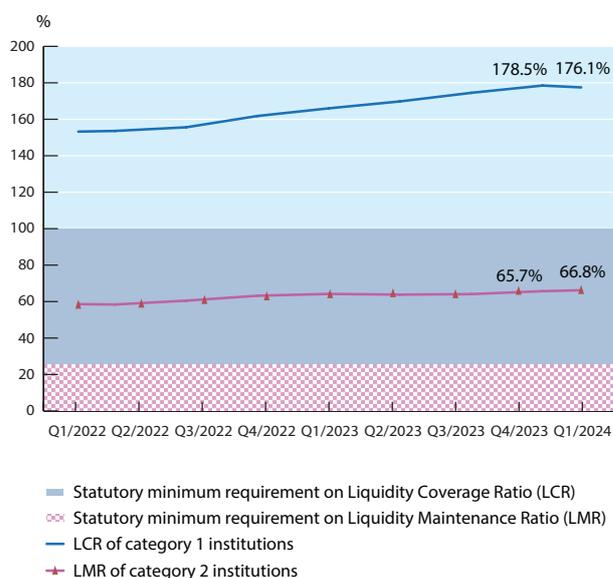


* These cases were mainly related to bank staff housing loans or residential mortgage loans under the mortgage insurance programme, which generally have a higher loan-to-value ratio.

Liquidity conditions

Exhibit 14

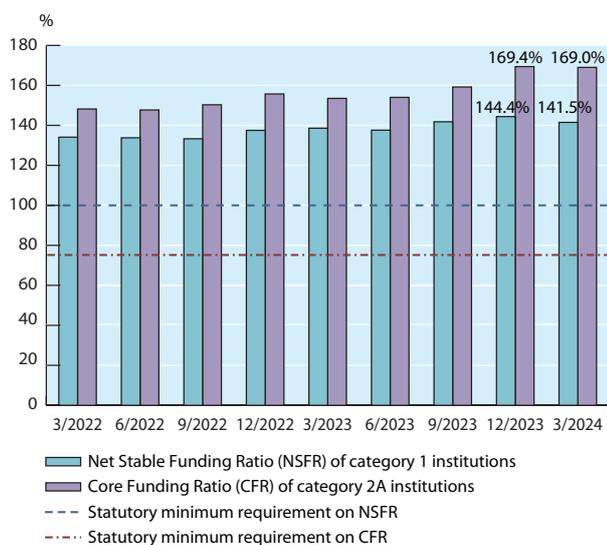
Liquidity positions of AIs remained robust



Note: For a category 1 institution, the statutory minimum requirement of the LCR is 100%. A category 2 institution must maintain an LMR of not less than 25% on average in each calendar month.

Exhibit 15

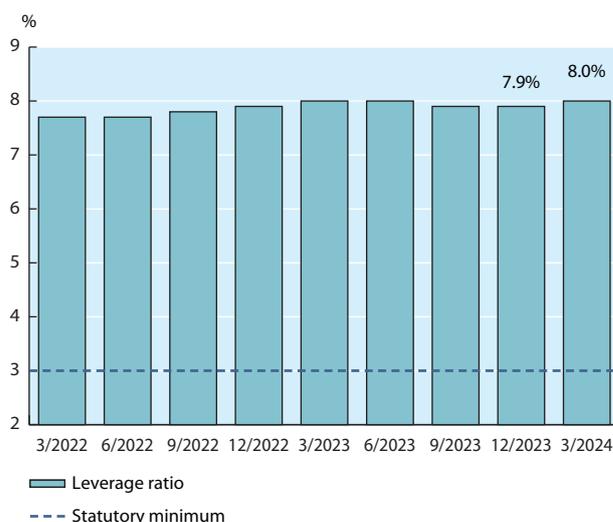
Funding positions of AIs were largely stable



Note: For a category 1 institution, the statutory minimum requirement of the NSFR is 100%. A category 2A institution must maintain a CFR of not less than 75% on average in each calendar month.

Exhibit 17

Leverage ratio stayed at a healthy level

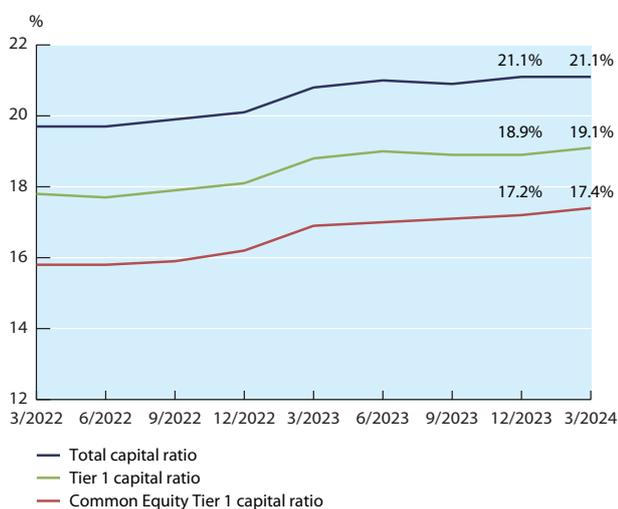


Note: Leverage ratio is defined as the ratio of Tier 1 capital to an exposure measure, where the exposure measure includes both on-balance sheet and off-balance sheet exposures. All locally incorporated AIs are required to maintain a leverage ratio of not less than 3%.

Capital adequacy

Exhibit 16

Capital positions of locally incorporated AIs remained strong



APPENDIX

KEY PERFORMANCE INDICATORS OF THE BANKING SECTOR¹ (%)

	Mar 2023	Dec 2023	Mar 2024
Interest rates			
1-month HIBOR fixing ² (quarterly average)	3.01	5.19	4.63
3-month HIBOR fixing (quarterly average)	3.82	5.34	4.73
BLR ³ and 1-month HIBOR fixing spread (quarterly average)	2.62	0.69	1.25
BLR and 3-month HIBOR fixing spread (quarterly average)	1.81	0.54	1.15
Composite interest rate ⁴	2.13	2.94	2.73
Balance sheet developments⁵	All AIs		
Total deposits	+0.5	+2.8	-0.2
Hong Kong dollar	+2.6	+0.5	+0.1
Foreign currency	-1.4	+4.8	-0.4
Total loans	+0.9	-1.0	-1.0
Domestic lending ⁶	+1.4	-0.1	-1.2
Loans for use outside Hong Kong ⁷	-0.4	-3.4	-0.5
Negotiable instruments			
Negotiable certificates of deposit (NCDs) issued	-2.0	-2.5	-0.9
Negotiable debt instruments held (excluding NCDs)	+3.8	+2.5	+2.7
Asset quality			
As a percentage of total loans ⁸			
Pass loans	96.57	96.41	96.16
Special mention loans	1.98	2.03	2.05
Classified loans ⁹ (gross)	1.46	1.56	1.79
Classified loans (net) ¹⁰	0.83	0.83	1.02
Overdue > 3 months and rescheduled loans	1.00	1.24	1.48
Classified loan ratio (gross) of Mainland related lending ¹¹	2.26	2.58	2.77
Liquidity ratios (consolidated)			
Liquidity Coverage Ratio — applicable to category 1 institutions (quarterly average)	166.0	178.5	176.1
Liquidity Maintenance Ratio — applicable to category 2 institutions (quarterly average)	64.2	65.7	66.8
Net Stable Funding Ratio — applicable to category 1 institutions	138.6	144.4	141.5
Core Funding Ratio — applicable to category 2A institutions	153.5	169.4	169.0
Profitability	Retail banks		
Loan impairment charges as a percentage of average total assets (year-to-date annualised)	0.06	0.26	0.11
Net interest margin (year-to-date annualised)	1.56	1.67	1.53
Cost-to-income ratio (year-to-date)	38.2	38.9	38.1
Asset quality	Surveyed institutions		
Delinquency ratio of residential mortgage loans	0.06	0.08	0.09
Credit card lending			
Delinquency ratio	0.25	0.30	0.33
Charge-off ratio — quarterly annualised	1.60	1.98	2.20
— year-to-date annualised	1.60	1.74	2.20
Capital adequacy (consolidated)	All locally incorporated AIs		
Common Equity Tier 1 capital ratio	16.9	17.2	17.4
Tier 1 capital ratio	18.8	18.9	19.1
Total capital ratio	20.8	21.1	21.1
Leverage ratio	8.0	7.9	8.0

Notes:

1. Figures are related to Hong Kong offices only except where otherwise stated.
2. The Hong Kong Interbank Offered Rates are released by the Hong Kong Association of Banks.
3. With reference to the rate quoted by The Hongkong and Shanghai Banking Corporation Limited.
4. The composite interest rate is a weighted average interest rate of all Hong Kong dollar interest-rate-sensitive liabilities, which include deposits from customers, amounts due to banks, negotiable certificates of deposit and other debt instruments, and all other liabilities that do not involve any formal payment of interest but the values of which are sensitive to interest rate movements (such as Hong Kong dollar non-interest bearing demand deposits) on the books of banks. Further details can be found on the HKMA website.
5. Quarterly change.
6. Loans for use in Hong Kong plus trade finance.
7. Including "others" (i.e. unallocated).
8. Figures are related to all AIs' Hong Kong offices, as well as locally incorporated AIs' overseas branches and major overseas subsidiaries.
9. Classified loans are those loans graded as "substandard", "doubtful", or "loss".
10. Net of specific provisions/individual impairment allowances.
11. Figures are related to all AIs' Hong Kong offices, as well as locally incorporated AIs' Mainland branches and subsidiaries.