

Developments in the Banking Sector

by Banking Supervision Department

HIGHLIGHTS OF KEY TRENDS

Banking sector performance

Overview

- The Hong Kong banking sector stayed resilient with strong capital and liquidity buffers. The classified loan ratio increased during the third quarter of 2024 but the asset quality of the banking sector remained manageable.

Profitability

- The aggregate pre-tax operating profit of retail banks increased by 8.4% year on year in the first three quarters of 2024 (Exhibit 1). This was mainly attributable to increases in income from investments held for trading and income from foreign exchange and derivatives operations, partially offset by a decrease in net interest income. Retail banks' net interest margin narrowed to 1.50% in the first three quarters of 2024 from 1.68% in the same period last year (Exhibit 2).

Balance sheet trends

- Total loans of the banking sector decreased by 0.2% in the third quarter of 2024 (Exhibit 5). Among the total, loans for use in Hong Kong and trade finance decreased by 0.8% and 1.5% respectively, while loans for use outside Hong Kong increased by 1.7%. Mainland-related lending decreased by 1.3% during the same period (Exhibit 6).
- Total deposits increased by 2.5% in the third quarter of 2024. Among the total, Hong Kong dollar deposits and US dollar deposits increased by 1.3% and 4.9% respectively. The overall loan-to-deposit ratio decreased slightly to 58.1% at the end of September 2024 from 59.7% at the end of June 2024 (Exhibit 7).

Loan quality, liquidity conditions and capital adequacy

- The classified loan ratio of the banking sector increased to 1.99% at the end of September 2024 from 1.89% at the end of June 2024. The classified loan ratio for Mainland-related lending edged up to 2.79% from 2.78% a quarter earlier (Exhibit 10). During the same period, the delinquency ratios of credit card lending and residential mortgage loans remained at low levels of 0.35% and 0.11% respectively (Exhibit 12).
- The banking sector continued to be liquid and well capitalised. The average Liquidity Coverage Ratio of category 1 institutions was 178.4% in the third 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 21.8% at the end of September 2024 (Exhibit 16), well above the international minimum requirement of 8%.

Results of surveys on debt securities and off-balance sheet exposures to derivatives and securitisations

- The total market value of debt securities held by the surveyed AIs¹ increased by 18.0% to HK\$8,205 billion at the end of September 2024 from HK\$6,952 billion a year earlier (Exhibit 18). The credit quality of these securities remained high, as over 98% of the debt securities holdings were investment grade (Exhibit 19). The issuers of these securities were mostly governments and banks (Exhibit 20).
- The total gross notional amount of outstanding derivatives contracts held by AIs increased by 10.6% to HK\$158 trillion at the end of June 2024

from HK\$143 trillion a year earlier (Exhibit 21). Over-the-counter (OTC) swap and forward contracts continued to represent the bulk of the contracts held, accounting for over 90% of the total notional amount of all outstanding derivatives contracts at the end of June 2024 (Exhibit 22). In terms of underlying assets, over 98% of these contracts were interest rate and foreign exchange contracts (Exhibit 23). The off-balance sheet securitisation exposures of AIs remained insignificant, with the aggregate amount of notional exposures totalling HK\$27 billion at the end of June 2024.

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

Banking sector performance

Profitability

Exhibit 1

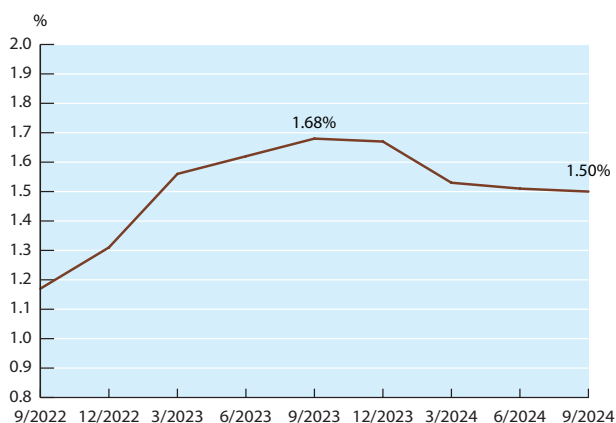
Pre-tax operating profit of retail banks' Hong Kong offices

Key items	Change of pre-tax operating profit Q1-Q3 2024 vs Q1-Q3 2023	
	Percentage change	Contribution to the percentage change in pre-tax operating profit (ppt)
Income from investments held for trading	+112.1%	+10.8
Income from foreign exchange and derivatives operations	+29.8%	+7.4
Net interest income	-6.7%	-8.2
Pre-tax operating profit	+8.4%	

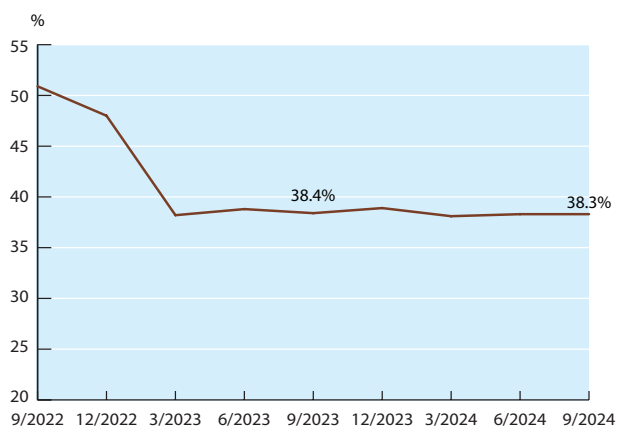
¹ This survey covers all licensed banks and restricted licence banks.

Exhibit 2

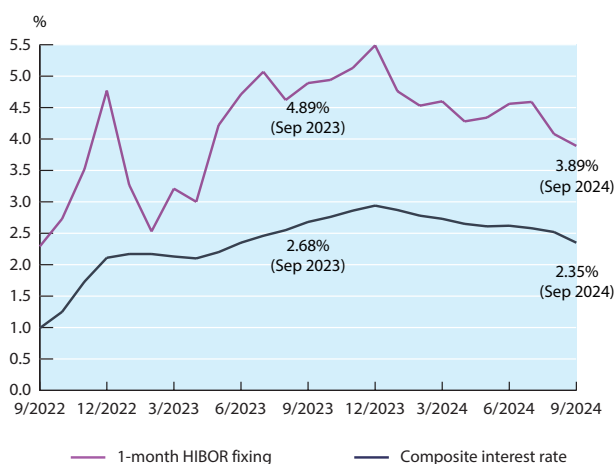
Net interest margin (year-to-date annualised) of retail banks narrowed in the third quarter of 2024

**Exhibit 4**

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

**Exhibit 3**

Both the Hong Kong dollar interbank interest rates and composite interest rate trended lower in the third quarter of 2024



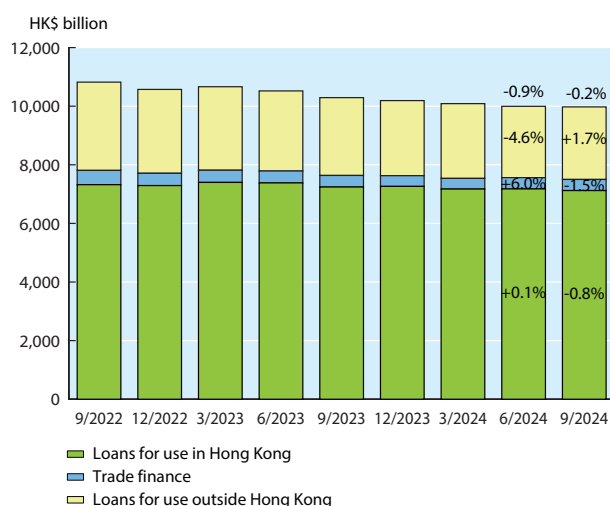
— 1-month HIBOR fixing — Composite interest rate

Notes:

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

Loans and deposits**Exhibit 5**

Total loans decreased by 0.2% in the third quarter of 2024



■ Loans for use in Hong Kong
■ Trade finance
■ Loans for use outside Hong Kong

Notes:

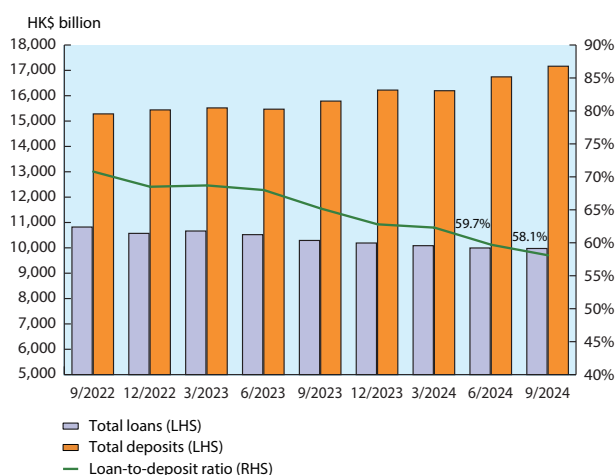
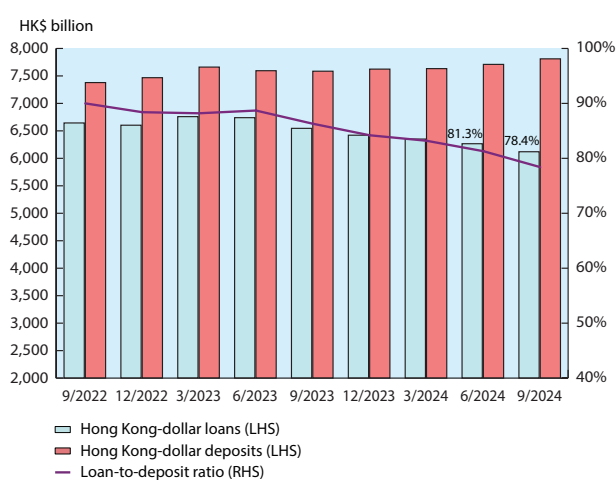
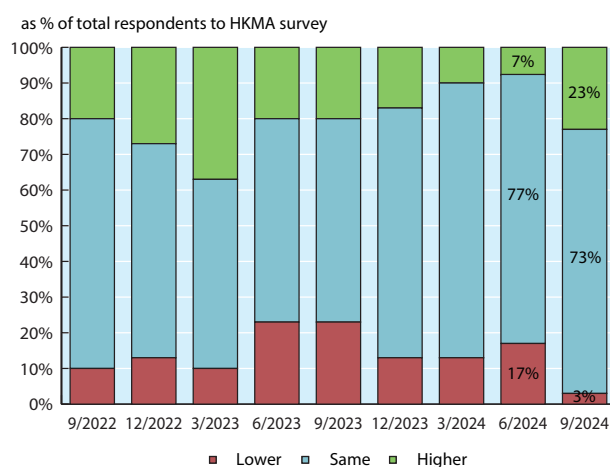
- "Loans for use outside Hong Kong" include "others" (i.e. unallocated).
- Percentage denotes quarter-on-quarter growth rate.

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

Key items	Percentage change	Contribution to the percentage change in loans for use in Hong Kong (ppt)
Property lending (including residential mortgage loans and loans for property development and investment)	-1.1%	-0.5
Financial concerns	-1.3%	-0.2
Loans for use in Hong Kong	-0.8%	

Exhibit 6**Mainland-related lending**

	Jun 2024 HK\$ billion	Sep 2024 HK\$ billion
Mainland-related loans excluding trade finance	3,797	3,762
Trade finance	245	226
Total	4,042	3,988

Exhibit 7**Total loan-to-deposit ratio decreased in the third quarter of 2024****Exhibit 8****Hong Kong dollar loan-to-deposit ratio decreased in the third quarter of 2024****Exhibit 9****The percentage 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 declined significantly**

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*

	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Sep 2024
	<i>% of total loans</i>				
Special mention loans	1.90	2.03	2.05	1.93	2.01
Classified loans (gross)	1.61	1.57	1.79	1.89	1.99
of which:					
Substandard	0.54	0.59	0.65	0.63	0.70
Doubtful	0.87	0.76	0.90	1.02	1.03
Loss	0.21	0.22	0.24	0.25	0.25
Classified loans (net of specific provisions)	0.87	0.83	1.02	1.09	1.17
Overdue > 3 months and rescheduled loans	1.23	1.24	1.48	1.52	1.64
of which:					
Overdue > 3 months	1.06	1.07	1.27	1.28	1.41
Rescheduled loans	0.17	0.17	0.21	0.24	0.24
	<i>% of Mainland-related lending</i>				
Classified loans (gross) of Mainland-related lending**	2.68	2.58	2.77	2.78	2.79

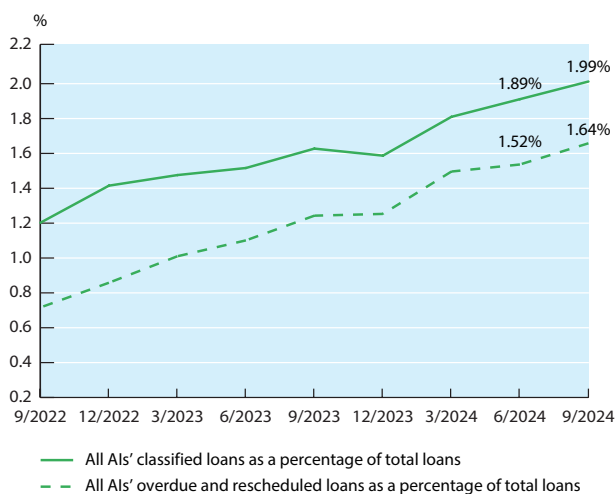
Note: Figures may not add up to total due to rounding.

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

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

Exhibit 11

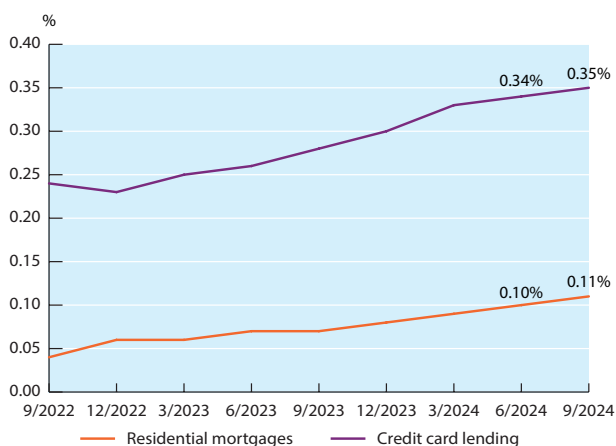
The banking sector's overall asset quality deteriorated in the third quarter of 2024 but remained manageable



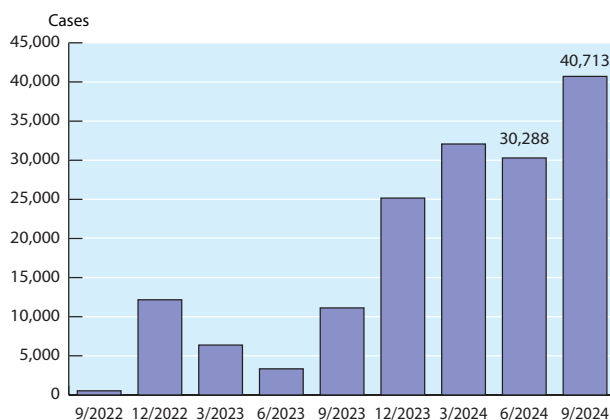
Note: Figures cover Hong Kong offices, overseas branches and major overseas subsidiaries.

Exhibit 12

Delinquency ratios of credit card lending and residential mortgages edged up in the third quarter of 2024 but remained at low levels

**Exhibit 13**

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

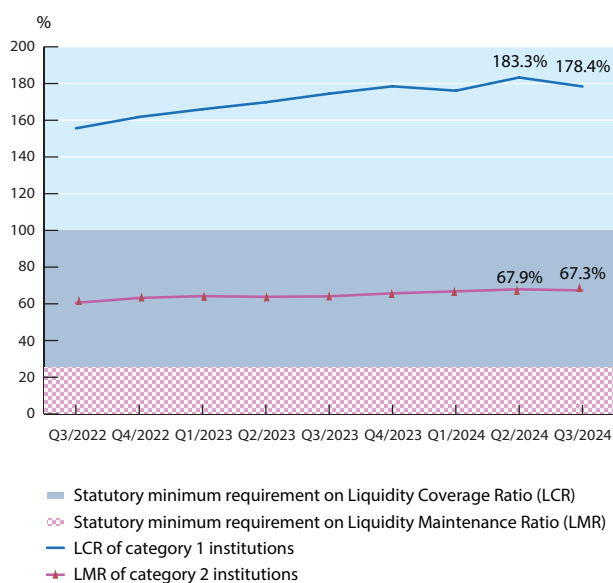


* These cases were mainly related to residential mortgage loans under the mortgage insurance programme, which generally have a higher loan-to-value ratio.

Liquidity conditions

Exhibit 14

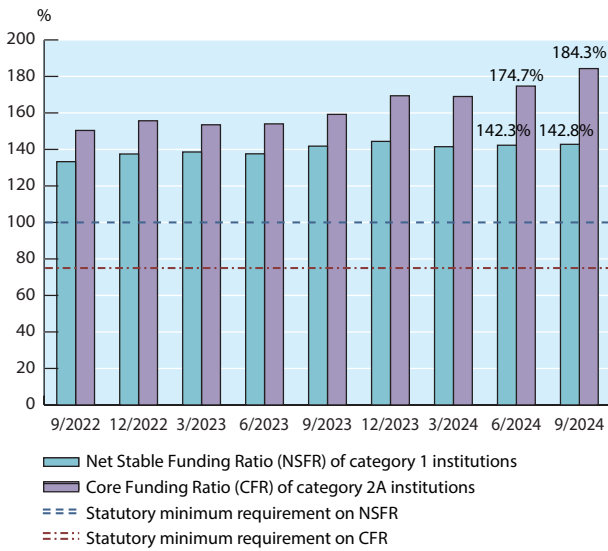
Liquidity positions of AIs remained robust



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

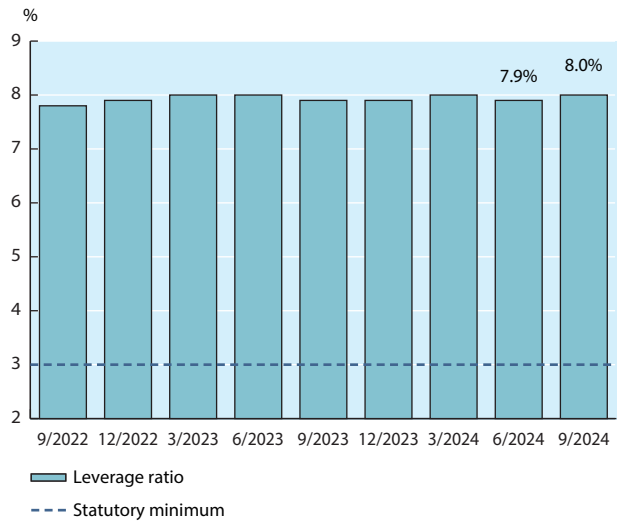
Funding positions of AIs were largely stable



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

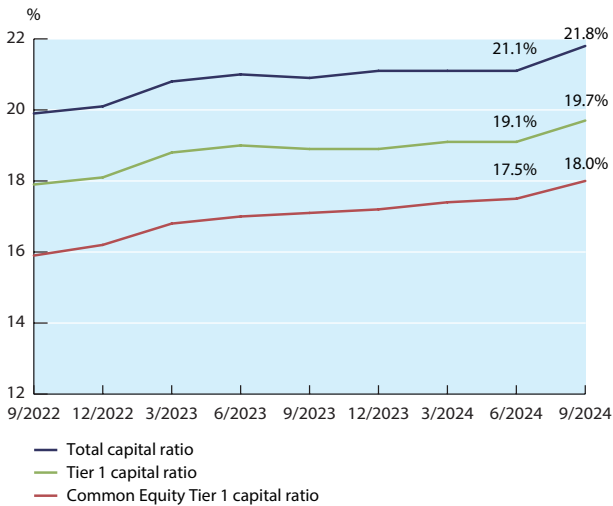


Note: Leverage ratio is defined as the ratio of Tier 1 capital to an exposure measure, where the exposure measure includes both on-balance sheet and off-balance sheet exposures. All locally incorporated AIs are required to maintain a leverage ratio of not less than 3%.

Capital adequacy

Exhibit 16

Capital positions of locally incorporated AIs strengthened



Results of surveys on debt securities and off-balance sheet exposures to derivatives and securitisations

Debt securities held²

Exhibit 18

Surveyed AIs reported an increase in their holdings of debt securities compared with a year earlier

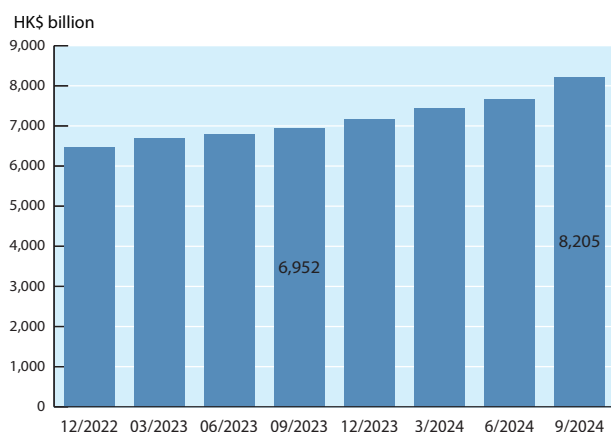


Exhibit 19

Debt securities held by surveyed AIs were predominantly investment grade securities

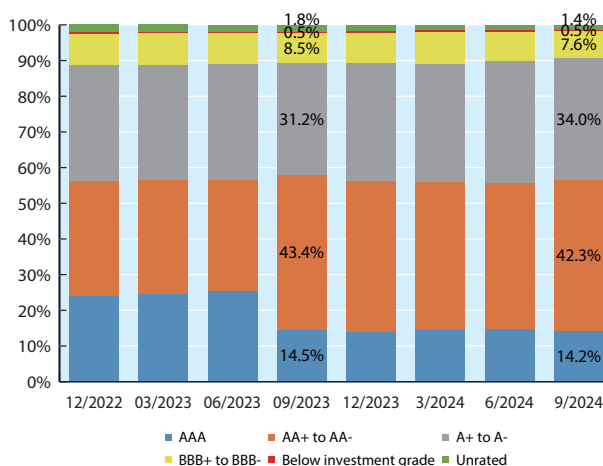


Exhibit 20

Most of the debt securities were issued by governments and banks

Types of instrument and issuer	All surveyed AIs							
	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Sep 2024
Part 1: Debt securities other than securitisation products³								
Governments and international organisations, of which:	53.0%	52.4%	53.2%	54.0%	53.2%	52.5%	51.0%	52.4%
Exchange Fund bills and notes	20.7%	20.2%	19.9%	19.6%	19.3%	18.4%	17.7%	17.8%
US Treasury bills, notes and bonds	13.4%	13.4%	13.8%	14.7%	14.1%	13.7%	13.3%	14.2%
Public sector entities	6.7%	7.7%	7.9%	7.9%	8.4%	8.6%	8.7%	8.5%
Banks	23.1%	22.9%	22.3%	21.8%	22.4%	22.8%	24.2%	23.7%
Corporates	11.0%	10.9%	10.2%	9.9%	9.8%	9.6%	9.2%	8.9%
Others	4.1%	4.0%	4.3%	4.3%	4.1%	3.9%	4.0%	3.7%
Part 2: Securitisation products								
Total securitisation products	2.1%	2.1%	2.1%	2.1%	2.1%	2.4%	2.8%	2.9%

² This section presents the results of the Survey on Debt Securities Held by all licensed banks and restricted licence banks. The results cover the banking book and trading book positions of surveyed AIs' Hong Kong offices and their overseas branches. Figures shown may not add up to total due to rounding.

³ Securitisation products include asset-backed securities, mortgage-backed securities, collateralised debt obligations, notes issued by structured investment vehicles, asset-backed commercial papers, and other similar structured credit products.

Exposures to Derivatives⁴

Exhibit 21

Total notional amount of all outstanding derivatives contracts increased

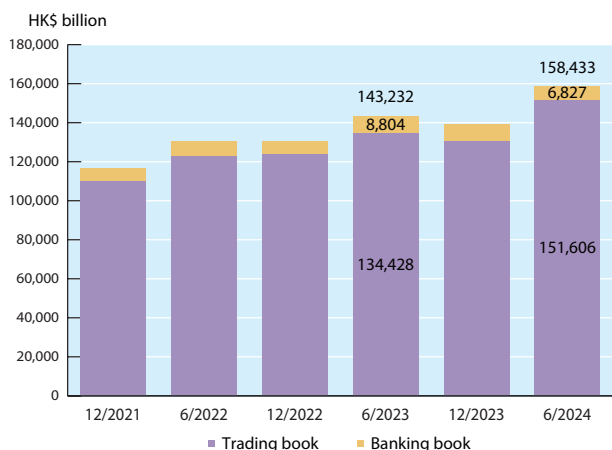


Exhibit 22

OTC swap and forward contracts continued to account for over 90% of total derivatives contracts held by AIs

(% of total)	All AIs					
	Dec 2021	Jun 2022	Dec 2022	Jun 2023	Dec 2023	Jun 2024
Derivatives product						
Exchange-traded derivatives	0.8%	0.8%	0.8%	0.7%	0.4%	0.6%
OTC derivatives	99.2%	99.2%	99.2%	99.3%	99.6%	99.4%
of which:						
Forwards	24.5%	23.4%	22.8%	23.2%	24.6%	24.1%
Swaps	67.5%	69.0%	70.0%	70.6%	69.6%	70.3%
Options	4.3%	4.2%	4.0%	4.1%	4.1%	3.8%
Credit derivatives	0.5%	0.5%	0.5%	0.4%	0.5%	0.5%
Others	2.5%	2.1%	2.0%	1.0%	0.7%	0.6%

⁴ This section presents the results of the Survey on Off-balance Sheet Exposures in Derivatives and Securitisation Transactions. The results cover the banking book and trading book positions of all AIs' Hong Kong offices and their overseas branches. Figures may not add up to total due to rounding.

Exhibit 23**Derivatives contracts held were predominantly interest rate and foreign exchange contracts**

(% of total)	All Als					
	Dec 2021	Jun 2022	Dec 2022	Jun 2023	Dec 2023	Jun 2024
Underlying risk						
Interest rate risk	48.9%	49.7%	50.1%	49.8%	48.0%	47.5%
Foreign exchange risk	49.5%	49.0%	48.7%	49.0%	50.7%	51.0%
Equity risk	0.9%	0.7%	0.7%	0.7%	0.8%	0.8%
Commodity risk	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Credit risk	0.5%	0.5%	0.5%	0.4%	0.5%	0.5%
Other risks	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Exhibit 24**The notional amount of credit derivatives contracts increased but continued to account for only a small share of total derivatives contracts held**Notional amount
(HK\$ billion)

APPENDIX

KEY PERFORMANCE INDICATORS OF BANKING SECTOR¹ (%)

	Sep 2023	Jun 2024	Sep 2024
Interest rates			
1-month HIBOR fixing ² (quarterly average)	4.86	4.39	4.19
3-month HIBOR fixing (quarterly average)	5.03	4.65	4.36
BLR ³ and 1-month HIBOR fixing spread (quarterly average)	0.98	1.49	1.66
BLR and 3-month HIBOR fixing spread (quarterly average)	0.82	1.23	1.49
Composite interest rate ⁴	2.68	2.62	2.35
Balance sheet developments⁵	All AIs		
Total deposits	+2.1	+3.4	+2.5
Hong Kong dollar	-0.1	+1.0	+1.3
Foreign currency	+4.2	+5.5	+3.5
Total loans	-2.2	-0.9	-0.2
Domestic lending ⁶	-1.9	+0.3	-0.8
Loans for use outside Hong Kong ⁷	-2.8	-4.6	+1.7
Negotiable instruments			
Negotiable certificates of deposit (NCDs) issued	-13.1	+5.2	+4.8
Negotiable debt instruments held (excluding NCDs)	+1.3	+2.1	+6.7
Asset quality			
As a percentage of total loans ⁸			
Pass loans	96.49	96.18	96.00
Special mention loans	1.90	1.93	2.01
Classified loans ⁹ (gross)	1.61	1.89	1.99
Classified loans (net) ¹⁰	0.87	1.09	1.17
Overdue > 3 months and rescheduled loans	1.23	1.52	1.64
Classified loan ratio (gross) of Mainland related lending ¹¹	2.68	2.78	2.79
Liquidity ratios (consolidated)			
Liquidity Coverage Ratio — applicable to category 1 institutions (quarterly average)	174.5	183.3	178.4
Liquidity Maintenance Ratio — applicable to category 2 institutions (quarterly average)	64.1	67.9	67.3
Net Stable Funding Ratio — applicable to category 1 institutions	141.8	142.3	142.8
Core Funding Ratio — applicable to category 2A institutions	159.2	174.7	184.3
Profitability	Retail banks		
Loan impairment charges as a percentage of average total assets (year-to-date annualised)	0.20	0.18	0.19
Net interest margin (year-to-date annualised)	1.68	1.51	1.50
Cost-to-income ratio (year to date)	38.4	38.3	38.3
Asset quality	Surveyed institutions		
Delinquency ratio of residential mortgage loans	0.07	0.10	0.11
Credit card lending			
Delinquency ratio	0.28	0.34	0.35
Charge-off ratio — quarterly annualised	1.88	2.33	2.33
— year-to-date annualised	1.72	2.23	2.25
Capital adequacy (consolidated)	All locally incorporated AIs		
Common Equity Tier 1 capital ratio	17.1	17.5	18.0
Tier 1 capital ratio	18.9	19.1	19.7
Total capital ratio	20.9	21.1	21.8
Leverage ratio	7.9	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.