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Hong Kong Banking Report 2021

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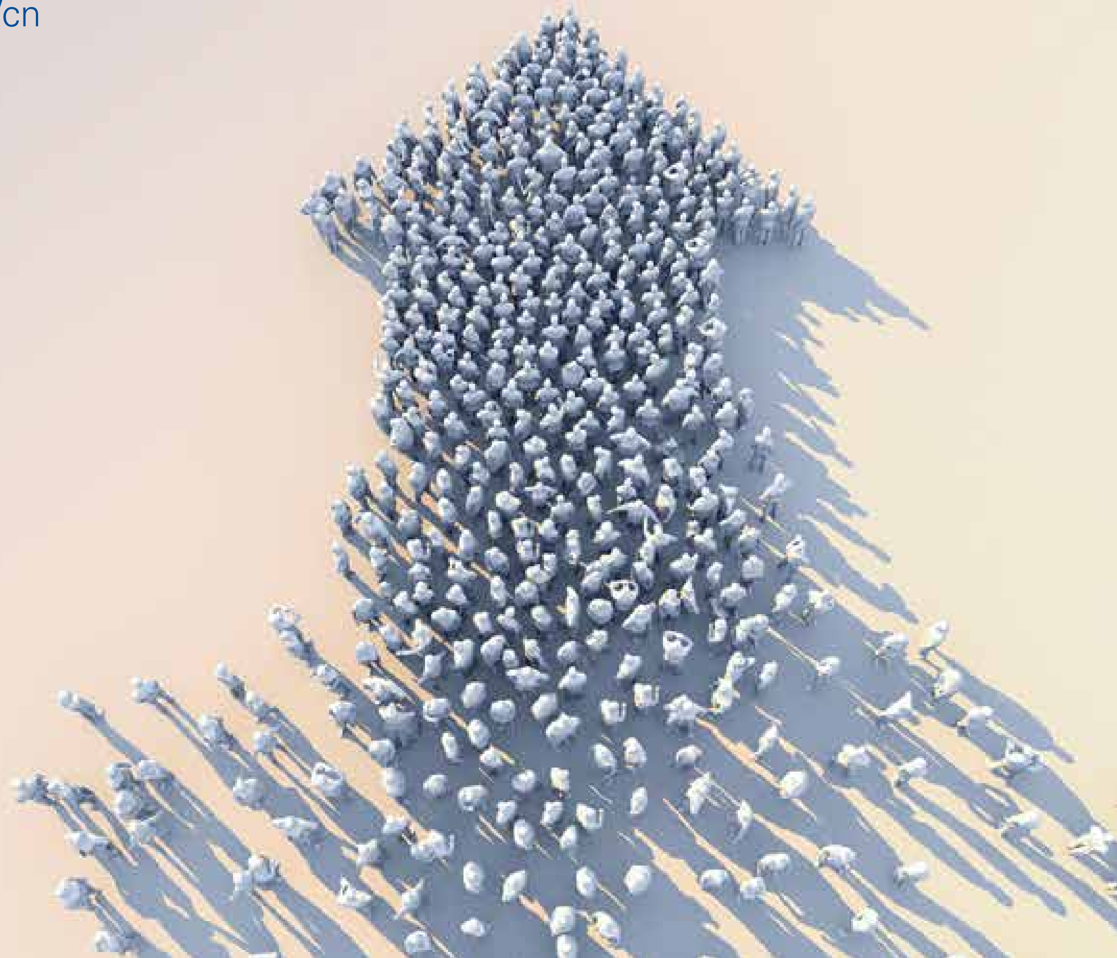

Contents

Introduction

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Partner, Financial Services
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In this year's annual Banking Report, we review the financial results of banks in Hong Kong in 2020 and provide our outlook for the industry.

It is hard to assess the performance of banks in Hong Kong in 2020 without talking about the impact of Covid-19. While the pandemic has undoubtedly had a negative impact on Hong Kong's economy, it has not caused a significant financial crisis. The banking sector in particular has emerged from the worst of the pandemic reasonably well. Regulatory measures over the last few years to improve capital strength and liquidity, as well as the general strength of banks' balance sheets, have shown that the banking sector in Hong Kong remains resilient. We did not see a significant increase in credit losses, and there have not been any challenges around falling asset prices giving rise to misconduct claims. However, the banking sector saw a drop in revenue in 2020, which is largely attributed to decreasing net interest margins. This has had a notable impact on overall profitability, and we expect this trend to continue throughout the rest of 2021 and probably into 2022.

Notably, for the first time in 33 editions of our annual Hong Kong Banking Report we are delighted to feature a new category: virtual banks. This report analyses the results and key financial metrics of the eight virtual banks in Hong Kong and discusses their growth prospects. It is still too early to say who the market leaders might be, but the next 12 months will be critical for these new players to evolve and expand their offering to attract customers and start to show they have a sustainable future.

Our report also explores four key themes that we believe are going to have a significant impact on Hong Kong's banking sector in the year ahead.

ESG: We continue to see a lot more industry focus on environmental, social and governance (ESG) issues in banking, and the Hong Kong Monetary Authority is becoming increasingly active in encouraging and mandating banks to incorporate ESG into their risk management frameworks. We are starting to see some banks commit to placing ESG at the core of their business, and offer more products and services that are ESG friendly. While there are still some challenges to overcome – such as setting a single global ESG standard – the increasing importance of ESG in banking and financial services more broadly is a trend that will be talked about for years to come.

Transformation: While many banks have spent years focussing on transformation in order to reduce costs, enhance customer experience and improve risk management and compliance, Covid-19 has really accelerated the pace of development and execution. The pandemic has dramatically increased awareness among banks of using operating costs as a key lever to maintain profitability, especially in an environment where interest revenue growth is likely to be subdued for the foreseeable future.

Furthermore, corporate and individual customers alike are demanding better and speedier services, more straight through processing and less manual intervention, all of which require transformation to systems and processes.

Wealth: Amid a prolonged low interest rate environment, many banks are exploring how to shift their reliance on interest income to a greater focus on fee-earning activities. There is an increasing focus on wealth management opportunities in Asia, which is unsurprising given the surge in new wealth and a burgeoning middle class in the region, especially in mainland China. Hong Kong has a key role to play as an international financial and asset management centre, as outlined in the 14th Five-Year Plan and the Development Plan for the Greater Bay Area (GBA). We are seeing a number of developments in this space, with international private banks and wealth managers seeking to use Hong Kong as a springboard to expand onshore in mainland China, Chinese banks setting up wealth management arms in Hong Kong, and emerging virtual bank and wealthtech players seeking to service retail investors. Furthermore, the imminent launch of the GBA Wealth Management Connect is a key opportunity for the banking sector. While the scheme will initially provide simple investment products aimed at mass affluent clients, a successful rollout could signal further opportunities in the future that could benefit wealthier segments.

Hong Kong as an international financial centre and connector: Tied to the wealth opportunity is a reaffirmation of Hong Kong's role as a key connector and conduit for capital flowing into and out of mainland China. We continue to see both international and Chinese banks seeking to set up operations in Hong Kong to benefit from the city's deep talent pool, diverse business community and investor base, and fair and transparent regulatory regime. Many of these banks also continue to use Hong Kong as a launchpad to set up an onshore mainland China business.

Overall, despite ongoing pressure on revenue and profitability, Hong Kong's banking sector remains resilient and is showing signs of recovery from the effects of the pandemic. Investment is on the rise, with a number of banks announcing plans to increase headcount in client facing areas in Hong Kong, particularly in wealth management and private banking. However, the growth of the banking sector is reliant on the growth of overall economic activity in Hong Kong, which will ultimately be dependent on the success of its vaccine rollout and how quickly the city can open up its borders to mainland China and the rest of the world.

I hope you enjoy our perspective on the sector in 2021, and would welcome the opportunity to discuss the banking results and the current industry landscape.

Overview

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Hong Kong's banking sector showed its resilience in 2020 despite a challenging year for the overall economy. The global economic slowdown triggered by the Covid-19 pandemic contributed to a weakening of Hong Kong's economy, which contracted by 6.1 percent from 2020[1] (compared to a 1.2 percent contraction in 2019).

Despite this, Hong Kong's banking sector continued to see growth in its overall balance sheet in 2020. Deposits grew and the total assets of all licensed banks expanded by 8.8 percent to HK$22.9 trillion, with growth of 3.4 percent in loans and advances. However, it was not all positive news. Consistent with our prediction in our 2020 Hong Kong Banking Report, operating profit before impairment charges for all licensed banks decreased by 19.3 percent from HK$287 billion in 2019 to HK$232 billion in 2020. We anticipate that the combination of a prolonged low interest rate environment and economic uncertainty, principally due to the pandemic, will continue to negatively impact the profitability of the banking sector in 2021.

After the US Federal Reserve (the Fed) cut rates to 0.25 percent on 15 March 2020, the Federal Funds Rate remained low throughout 2020. This impacted the net interest margin (NIM) for all licensed banks, which decreased by 41 basis points in 2020.

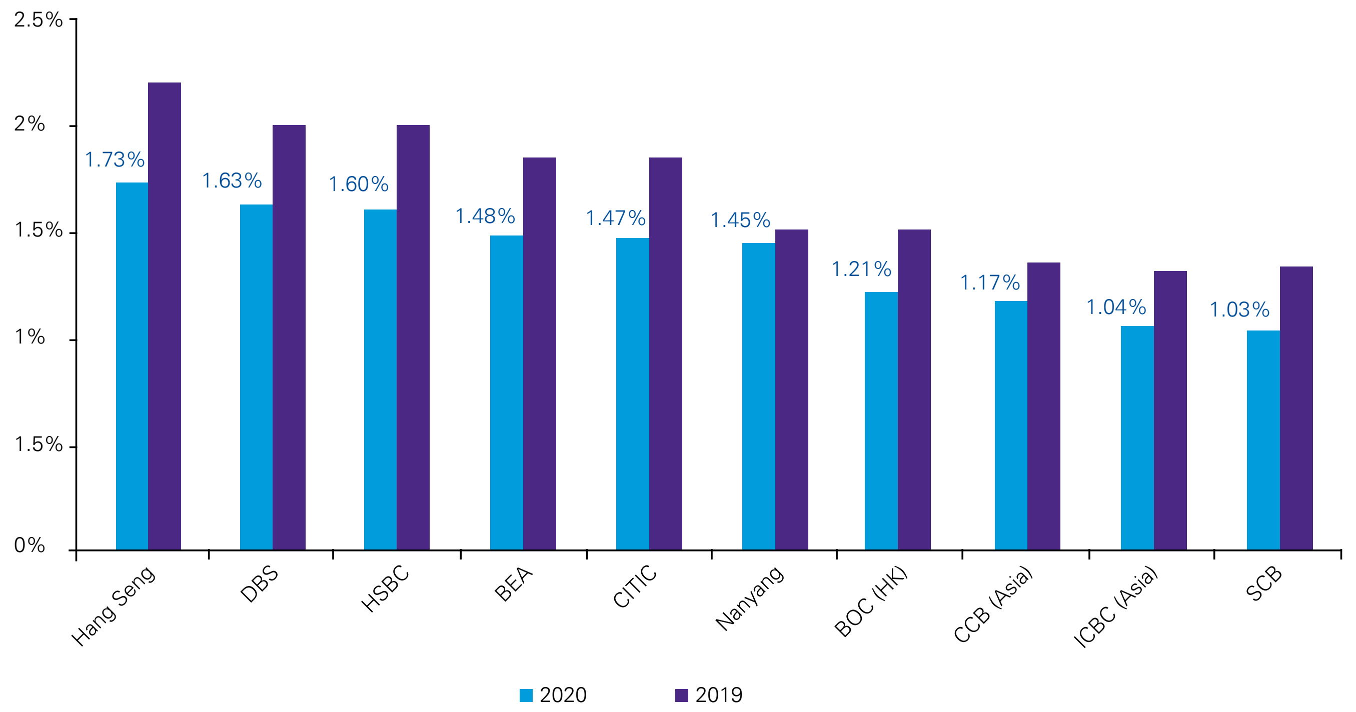
All of the eight virtual banks which have been granted a licence by the Hong Kong Monetary Authority (HKMA) have now commenced operations in Hong Kong.[2] Although they were all loss-making in 2020, they have invested a significant amount in their proposition to consumers in Hong Kong. It is too early to say which of the virtual banks will be successful in the short term – we expect that the virtual banks will continue to introduce new products and services to customers and in twelve months' time we may have a clearer view of the winners from this exciting new segment. It will not be easy for these new entrants as traditional banks have responded with enhanced digital offerings for their customers, which indicates that competition in retail banking in Hong Kong is only going to get fiercer.

[1] 2020 Economic Background and 2021 Prospects, p.23 https://www.hkeconomy.gov.hk/en/pdf/er_20q4.pdf
[2] HKMA Annual Report, p.5, https://www.hkma.gov.hk/media/eng/publication-and-research/annual-report/2020/AR2020_E.pdf

In this report, we present an analysis[3] of some key metrics for the top 10 locally incorporated licensed banks[4] in Hong Kong. While some banks have a dual entity structure in Hong Kong (e.g. a branch and an incorporated authorized institution), we have not combined their results. The analysis is performed on a reporting entity basis.

Net interest margin

Net interest margin



Source: Extracted from individual banks' financial and public statements

The Federal Funds Rate was cut by 100 basis points to 0.25 percent in March 2020 and remained flat throughout the year. Following this, the HKMA Base Rate was reduced by 114 basis points from 2 percent to 0.86 percent as a response. Together with the cuts in 2019, the impact was reflected in the NIM[5] of banks which reduced compared to 2019.

The average NIM across all surveyed licensed banks decreased by 41 basis points compared to 2019. The average NIM for the top 10 licensed banks for 2020 decreased to 1.38 from 1.71 percent in 2019. All of the top 10 banks posted a decrease in NIM. Hang Seng Bank Limited (Hang Seng) continued to post the highest NIM among the top 10 in 2020.

Hang Seng's NIM reduced to 1.73 percent (a decrease of 47 basis points compared with 2019), which was mainly driven by the lower market interest rates.[6]

Among the top 10 licensed banks, Nanyang Commercial Bank Limited (Nanyang) recorded the smallest decrease in NIM from 2019 (6 basis points). Although the bank's deposits from customers balance remained flat during the year, the deposits balance has shown a reduction in the proportion of time deposits from 68 percent in 2019 to 62 percent in 2020.[7]

In our view, the tough environment will remain in 2021 for Hong Kong banks' NIM. Although there are some signs that US inflationary pressures may lead the US Fed to raise rates, there is no consensus on this at present. Until rates rise, the outlook for Hong Kong banks' NIM is likely to remain challenging.

[3] The analysis is based on financial institutions registered with the Hong Kong Monetary Authority.

[4] The top 10 locally incorporated licensed banks mentioned in this article are the 10 banks with highest total assets among all locally incorporated licensed banks as at 31 December 2020.

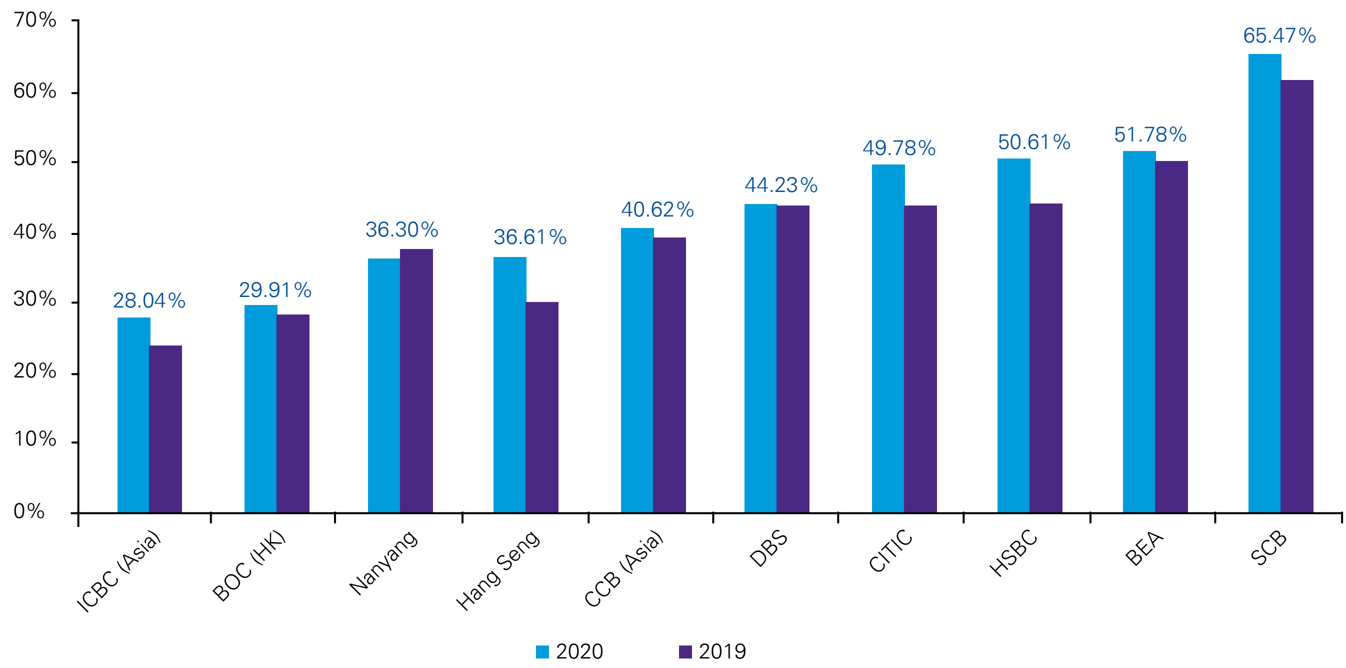
[5] NIM is either quoted from public announcements of financial statements, or calculated based on annualised net interest income and interest-bearing assets or total assets, depending on the availability of information.

[6] Hang Seng Annual Report 2020, p.17 https://vpr.hkma.gov.hk/statics/assets/doc/100057/ar_20/ar_20_eng.pdf

[7] Nanyang Annual Report 2020, p.245 https://vpr.hkma.gov.hk/statics/assets/doc/100060/ar_20/ar_20.pdf

Costs

Cost-to-income ratios



Source: Extracted from individual banks' financial and public statements

Cost management remained an essential focus for banks in Hong Kong to monitor and improve profitability in 2020. The cost-to-income ratio for the surveyed banks on average increased by 6.69 percentage points for the year ended 2020, from 44.26 percent to 50.95 percent. Total operating costs increased slightly from HK$204 billion for the year ended 2019 to HK$205 billion for the year ended 2020. Compared to the increase of HK$13 billion from 2018 to 2019, we can see that banks have placed a significant focus on reducing the absolute level of costs to manage profitability. In particular, the total staff costs of the surveyed banks decreased by 2.6 percent compared to 2019. In contrast to this, the first few months of 2021 have seen a number of banks – such as HSBC, Citibank, Standard Chartered and Goldman Sachs – announce plans to increase headcount in client facing areas in Hong Kong – in particular in wealth management and private banking.

However, the cost control was not enough to negate the effects of the low interest rate environment seen throughout 2020. The top 10 surveyed banks showed a 11.8 percent decrease in total operating income, combined with a 0.2 percent increase in total operating expenses. The weighted-average cost-to-income ratio of the top 10 banks deteriorated from 41.2 percent in 2019 to 46.8 percent in 2020.

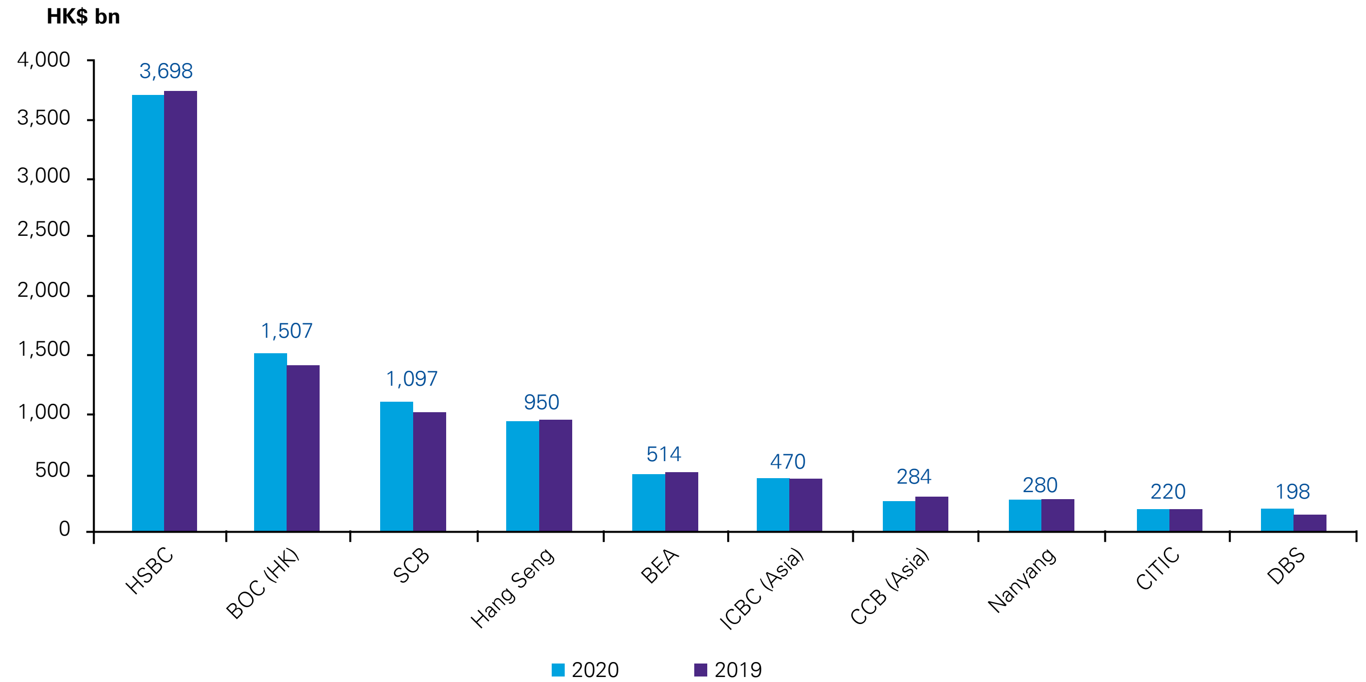
Industrial and Commercial Bank of China (Asia) Limited (ICBC (Asia)) and Standard Chartered Bank (Hong Kong) Limited (SCB) continued to be the banks with the lowest and highest cost-to-income ratios, respectively. Nanyang was the only bank out of the top 10 surveyed banks to record a decrease in its cost-to-income ratio. Despite the challenging environment, Nanyang reduced its cost-to-income ratio by 126 basis points, mainly through a reduction in IT expenses. Expenses were incurred on development of a new online system during 2019 which did not recur in 2020.

Hongkong and Shanghai Banking Corporation Limited (HSBC) recorded the largest increase in cost-to-income ratio among the top 10 banks – from 42.62 percent in 2019 to 50.61 percent in 2020. The increase was attributed to lower total operating income. Total operating income was driven by a decrease in net interest income in Hong Kong due to narrower customer deposit spreads and lower reinvestment yields as market interest rates decreased.[8] In addition to the adverse movement in net interest income, the drop in other operating income was also a contributing factor, which was driven by the less favourable movement in the present value of in-force long-term insurance business, and from the unfavourable revaluation on investment properties.[9]

SCB remains the only bank with a cost-to-income ratio exceeding 60 percent. While most of the operating expenses were invested in Retail Banking, Private Banking is the client segment with the highest cost-to-income ratio, at 78 percent, although it showed a slight drop from 79 percent in 2019. Corporate & Institutional Banking performed the best in this area with the ratio at 48.96 percent, an improvement from 50.63 percent in 2019.[10]

Loans and advances

Loans



Source: Extracted from individual banks' financial and public statements

Continuing the growth of previous years, total loans and advances of all surveyed banks increased by 3.4 percent, a lower growth rate compared to 6.4 percent in 2019.

Total loans and advances for the surveyed banks increased from HK$10,076 billion at 31 December 2019 to HK$10,418 billion at year end 2020. Commercial loans, mortgage lending and loans for use outside Hong Kong continued to make up most of the loans portfolio, representing 89.3 percent of total loans, a slight increase from 88 percent in 2019. Loans for use outside Hong Kong and commercial loans continue to be the two largest type of loans. The balance remained relatively flat for all loan products.

HSBC and Bank of China (Hong Kong) Limited (BOC (HK)) continue to lead the lending market, constituting 50 percent of total loans of all surveyed banks as at 31 December 2020. BOC (HK) recorded the largest increase among the top 10 surveyed banks.

[8] HSBC Annual Report and Accounts 2020, p.11
[9] HSBC Annual Report and Accounts 2020, p.89
[10] SCB Directors' Report and Consolidated Financial Statements, p.52 https://vpr.hkma.gov.hk/statics/assets/doc/100269/ar_20/ar_20_eng.pdf

Among the top 10 surveyed banks, gross loans and advances increased from HK$8,982 billion to HK$9,218 billion. This growth of 2.6 percent has slowed down compared to 5.7 percent in 2019. Eight out of the top 10 surveyed banks recorded an expansion in their loan portfolio.

After experiencing loan contraction in 2019, DBS Bank (Hong Kong) Limited (DBS) showed the largest percentage growth in 2020. The gross loans of DBS increased by 25.2 percent, from HK$158 billion to HK$198 billion. The increase was mainly from building and construction loan usage.[11]

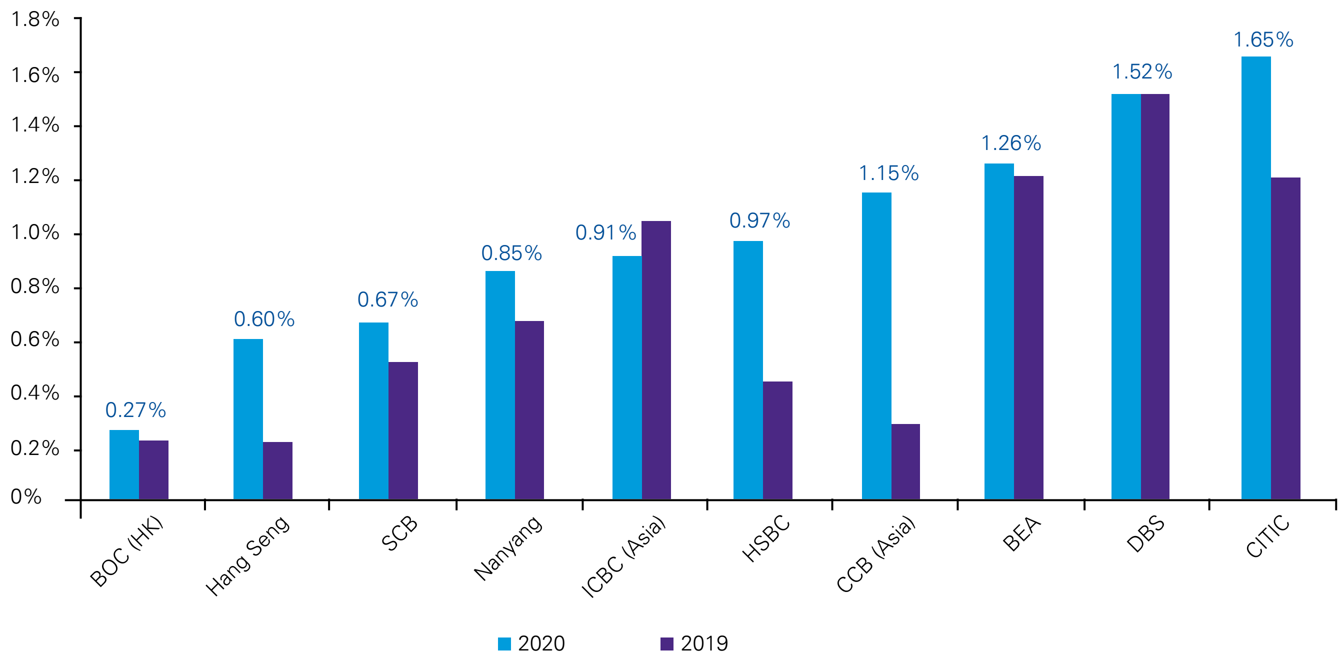
HSBC's gross loans and advances decreased by 1.1 percent to HK$3,698 billion.[12] The overall loan balances for HSBC's Hong Kong operations remained stable with a decrease in commercial lending offset by an increase in residential mortgages. BOC (HK)'s gross loans and advances increased by 6.4 percent to HK$1,507 billion, with the increase mainly from lending to individuals driven by growth in residential mortgage loans.[13]

China Construction Bank (Asia) Corporation Limited (CCB (Asia)) also experienced a contraction in loan balances in 2020. The decrease was largely driven by the contraction of loans to corporate customers.[14]

Covid-19 has clearly affected underlying economic activity. However, with the introduction and continued rollout of vaccines, we expect that economic activity could increase in the second half of 2021 compared to 2020. Increased economic activity will ultimately be dependent on how quickly Hong Kong can open its borders to mainland China and the rest of the world.

Credit quality

Impaired loan ratio



Source: Extracted from individual banks' financial and public statements

[11] DBS Annual Report 2020, p.41 https://vpr.hkma.gov.hk/statics/assets/doc/100034/ar_20/ar_20_eng.pdf
[12] HSBC Annual Report and Accounts 2020, p.13
[13] BOC Hong Kong (Holdings) Limited Annual Report 2020, p.28 https://www.bochk.com/dam/bochk/desktop/top/aboutus/ir/docs/finreport/bochkholdings/2020ar/e101_Fullset.pdf
[14] CCBA Annual Report 2020, p.96 https://vpr.hkma.gov.hk/statics/assets/doc/100015/ar_20/ar_20_eng.pdf

Amid global economic uncertainty, credit quality deteriorated significantly in 2020 among the surveyed licensed banks. The impaired loan ratio[15] for Hong Kong's banks worsened by 21 basis points from 0.5 percent to 0.71 percent.

For the top 10 surveyed banks, China CITIC Bank International Ltd (CITIC) and BOC (HK) recorded the highest and lowest impaired loan ratio in 2020, respectively. The impaired loan ratio of CITIC was 1.65% as at the end of 2020, up from 1.2 percent in 2019.

BOC (HK) had the lowest impaired loan ratio in 2020 among the top 10 surveyed banks. Asset quality remained benign through enhancement of the bank's risk monitoring and alert mechanisms to reduce risks in key industries, customers and businesses to reduce new non-performing loans.[16] Hang Seng downgraded several corporate loans which resulted in the ratio increasing by 38 basis points.

ICBC (Asia) was the only one of the top 10 surveyed banks to show improvement, with its impaired loan ratio reducing by 13 basis points. Its credit quality reflected a large improvement from 2019. Credit quality remained stable as the bank focused on creditworthiness of borrowers.[17]

CITIC, CCB (Asia) and HSBC all recorded an increase in their impaired loan ratio of more than 40 basis points. For CITIC, the impaired loan balances increased due to the downgrading of isolated large-size loan exposures.[18] For CCB (Asia), the deterioration in credit quality was mainly due to an increase in impaired loan balances, leading to an increase of its impaired loan ratio from 0.29 percent to 1.15 percent. For HSBC, the impaired loan balance increase was mainly from loans to the corporate and commercial sector.[19]

While there is still uncertainty arising from the Covid-19 pandemic, we remain cautious about the credit quality of Hong Kong banks' loan portfolio. The introduction of the Pre-approved Principal Payment Holiday Scheme in April 2020 provided immediate relief to corporate borrowers with participating banks pre-approving the deferment of loan principal repayments for up to 6 months and trade loans repayment by 90 days. The scheme was extended for a further year to October 2021.

The HKMA has forecast the Hong Kong economy to grow by 3.5 percent to 5.5 percent in 2021, compared with the record contraction of 6.1% in 2020. The consumer price inflation is forecast to be 1% in 2021, dropping from 1.3% in 2020.[20] We expect that banks will focus on closely monitoring their loans' credit quality to avoid any further impact from macroeconomic changes.

In our view, while the pandemic weighed heavily on the economy, the banking sector remained resilient. There could be a negative impact on impaired loans when customers resume normal repayment after the expiry of the Pre-approved Principal Payment Holiday Scheme which may not impact impaired loan figures until later in 2021 or early 2022. However, anecdotal discussions with banks indicate that the volume of loans taking advantage of the scheme is modest and so the impact is not likely to bring significant stress to the sector. In addition, if there is good news on the opening of borders in 2021, this will bring a favourable impact to the local economy as business returns to normal. We can expect the global economy to grow in 2021, especially in China where the economy grew in the first quarter of 2021 compared to last year.

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[15] Impaired loan ratio is calculated as impaired loans and advances divided by gross loans and advances to customers.
[16] BOC Hong Kong (Holdings) Limited Annual Report 2020, p.41
[17] ICBC (Asia) Annual Report 2020, p.34 https://vpr.hkma.gov.hk/statics/assets/doc/100077/ar_20/ar_20.pdf
[18] CITIC Annual Report 2020, p.14 https://vpr.hkma.gov.hk/statics/assets/doc/100040/ar_20/ar_20.pdf
[19] HSBC Annual Report and Accounts 2020, p.40
[20] 2020 Economic Background and 2021 Prospects, p.23 https://www.hkeconomy.gov.hk/en/pdf/er_20q4.pdf

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Assessing the initial impact and growth prospects of virtual banks

After receiving their licences in 2019, Hong Kong's eight virtual banks began operations in 2020 amid somewhat muted fanfare due to the Covid-19 pandemic. While most of these banks have been operating for less than a year, their latest financial results provide an indication of their initial progress and growth prospects going forward.

Figure 1: Hong Kong's virtual banks

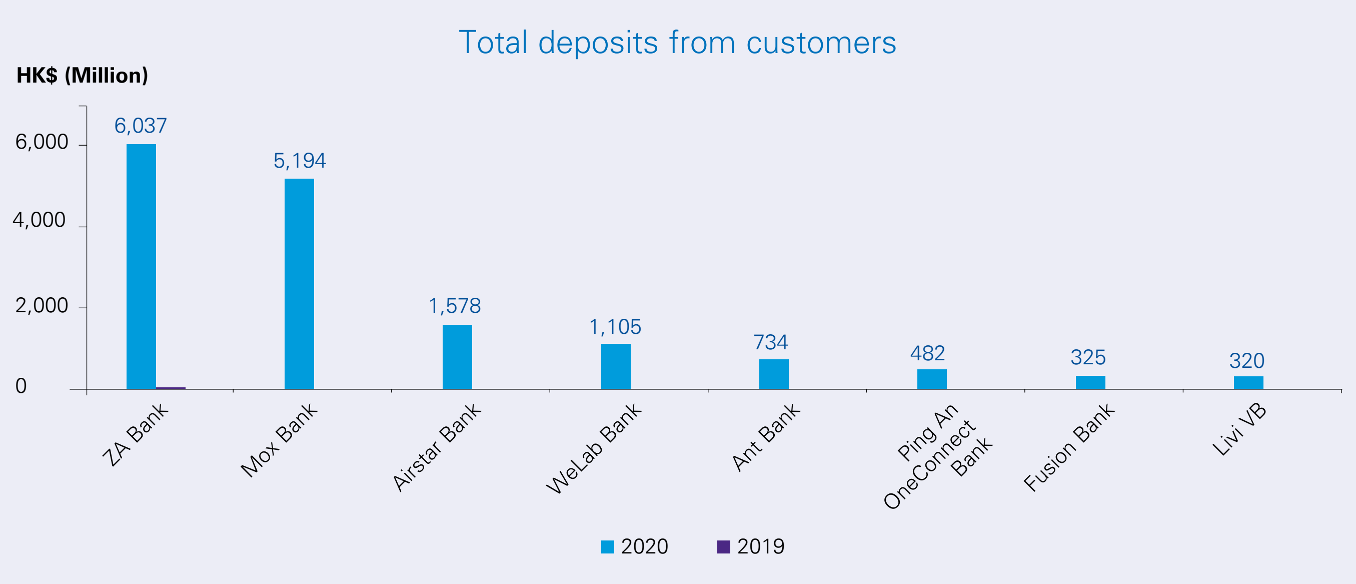
Virtual bank	Launch date
ZA Bank	March 2020
Airstar Bank	June 2020
WeLab Bank	July 2020
Livi VB	August 2020
Mox Bank	September 2020
Ant Bank	September 2020
Ping An OneConnect Bank	September 2020
Fusion Bank	December 2020

Unsurprisingly, all the virtual banks are yet to turn around a profit as they remain focused on investing and spending on areas such as office premises, staff costs, and information technology, as well as on marketing activities to grow their customer base. It is expected that over time as the number of customers and total deposits increase, we will see more of the banks' expenses being offset by increasing operating income.

Combined total deposits of all the virtual banks as of December 2020 was around HK$15.8 billion, representing 0.11% of total deposits across the entire banking sector. ZA Bank and Mox Bank had the largest share of deposits among all virtual banks at 38% and 33%, respectively.

In terms of loans, four of the virtual banks had advances to customers as at December 2020, although the amount for Mox Bank was negligible. ZA Bank and Airstar Bank led the way and recorded HK$683 million and HK$557 million of loans respectively to customers, while Ping An OneConnect Bank had about HK$70 million.[21] We expect that in the year ahead the other virtual banks will focus on offering more loans to their clients to boost revenue through interest income. For example, in April Mox Bank became the first virtual bank in Hong Kong to launch its own credit card services through its all-in-one Mox Card,[22] while Airstar Bank launched a pilot corporate banking service offering in May.[23]

[21] See Page 88 for the full Virtual Bank Financial Highlights
[22] https://mox.com/media/introducing-the-mox-card-with-credit-to-existing-customers/
[23] https://www.airstarbank.com/corporate/en-hk/



Growth prospects

Looking ahead, we expect virtual banks to continue to compete with traditional banks on price to attract customers and deposits. Total deposits at virtual banks will likely continue to increase steadily as existing customers add to their savings accounts and prospective customers consider opening new accounts, perhaps as a secondary bank. Interestingly, we believe that target customers will not only include the younger generation, but also the older demographic who in general have more savings and are becoming more accepting of virtual financial services platforms and services. Nonetheless, in the short term we expect deposits at virtual banks as a percent of total balances to be relatively minor.

While the Covid-19 pandemic has led to the proliferation of technology across the banking sector and greater customer acceptance of digital platforms and services, this can be viewed as both an opportunity and a challenge for virtual banks. On the one hand, the growing awareness of digital platforms and services presents an opportunity for virtual banks – which have built their digital infrastructure from scratch – to offer bespoke products and an improved user experience to attract more customers.

On the other hand, traditional banks in Hong Kong have been preparing for the launch of virtual banks for a few years, and the pandemic has also acted as a catalyst for these banks to accelerate their digital transformation initiatives, narrowing the digital gap between traditional and virtual banks.

Virtual banks therefore need to continue to evolve and expand their offering to continue to attract customers. This could include the continued provision of competitive interest rates on customer deposits, and the introduction of new products and services such as credit cards, loans and eventually wealth management services. Furthermore, virtual banks can leverage their partnerships with their key owners and stakeholders to provide value-added benefits and promotion schemes such as shopping discounts and other lifestyle benefits.

In a fiercely competitive market like Hong Kong, it is essential for virtual banks to continue to expand their products and services to stand out from their peers – both traditional banks and other virtual banks – and gain a critical mass of customers and deposits. This should also include an increased focus on attracting not just retail clients, but also SMEs to expand their customer base. Importantly, as the virtual banking landscape gradually develops, virtual banks should continue to invest in marketing to increase awareness in Hong Kong of the benefits that their products, services and platform can bring.

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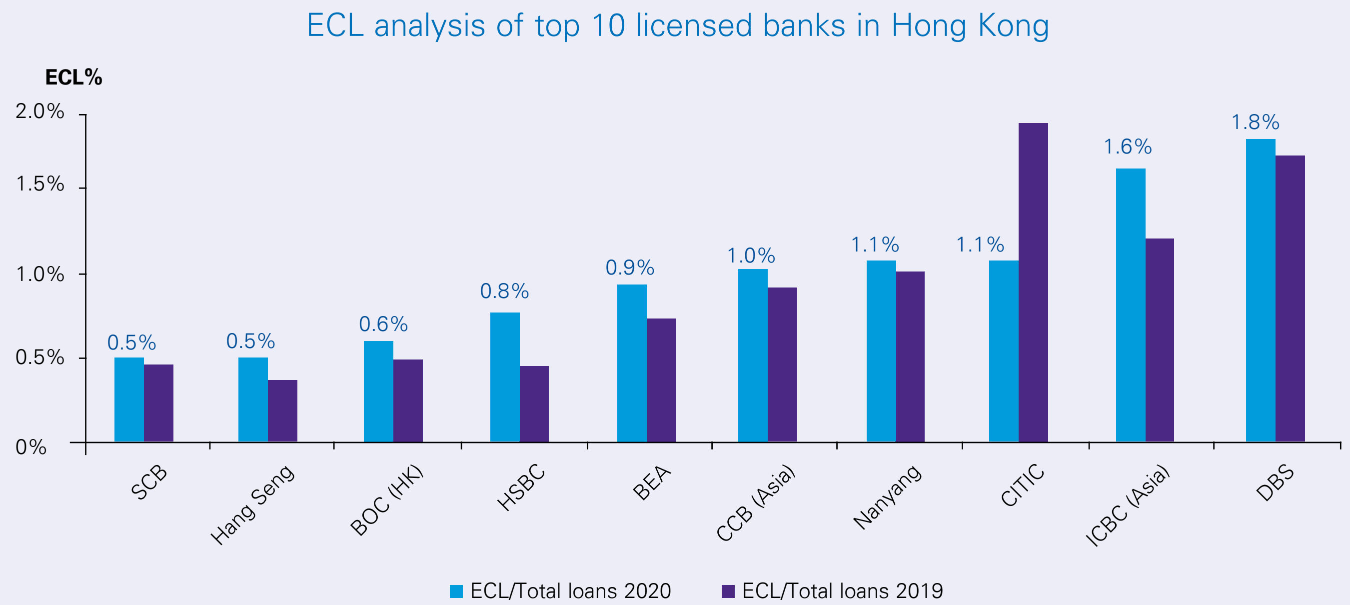
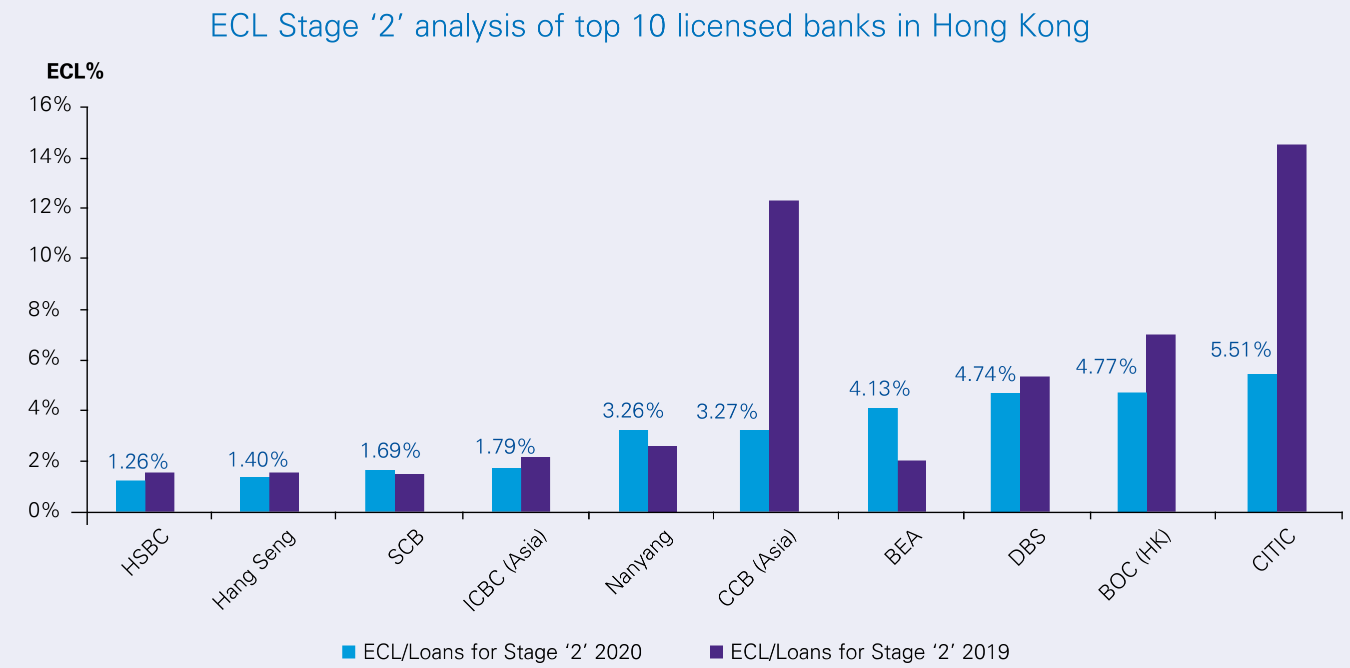
Expected credit loss

Covid-19 has highlighted several challenges with banks' IFRS 9 Expected Credit Loss (ECL) models. In some cases, banks' predictions of credit losses were too pessimistic and in other cases too optimistic. These challenges in many cases have led to management overlays to correct for model flaws brought about by the pandemic.

Globally, banks have set aside significant provisions during the initial phases of the pandemic based on model outputs only to reverse and release these provisions as the economic recovery looked more optimistic. Meanwhile in Hong Kong, we have not observed major upticks in ECL balances for year end 2020. In fact for stage '2', in some cases, a decrease in ECL balances was observed (Figure 2).

Figure 2: ECL analysis of the top 10 locally incorporated licensed banks in Hong Kong





The uncertainty around recurring waves of the pandemic, additional government support measures and the economic impact on certain sectors, combined with staggered regional vaccination rollouts has presented ECL modelling challenges for banks.

We have observed that ECL processes and models have had issues in three main areas. In the beginning of the crisis, models failed to allocate borrowers to stage ‘2’ due to the lack of timely information related to Covid-19 financial impacts and debt servicing ability. Second, the fluid nature of the crisis and constantly changing economic forecasts have led to models overreacting and under/over-estimating losses. Finally, the crisis has increased the need for more frequent model validations and model recalibrations to reflect the latest risk and economic data in the models. Given the challenges mentioned, specific considerations for banks include the following:

- Appropriateness of all ECL risk parameters given the fast-changing nature of the economic and credit risk environment;
- Appropriateness of the financial instrument staging, which reflects the increase in credit risk, which may be masked by government policy measures, and an assessment on borrowers/counterparties’ repayment abilities given the impacts of the pandemic (particularly if any are subject to the removal of government and/or regulatory relief measures);
- Assessment on the appropriateness of any security/collateral (if applicable) valuations given the potential impacts of Covid-19;
- Assessment on timeliness, applicability and reasonableness of macroeconomic forecasts applied to the IFRS 9 ECL; and
- Sector-specific analysis to identify risk sectors and industries that are at risk due to the pandemic.

Some banks have adopted the approach of conducting detailed model validation exercises during the 2020 fiscal year which resulted in a number of findings and model update action points. Others have put off the validation until more clarity is known on the direction of the economy and government relief measures. As the pandemic enters its second year, banks that have not taken on model update exercises will be hard pressed to keep using the same models given the breakdown in historical credit risk patterns. We have observed both the good and the bad when it comes to the maintenance of IFRS 9 ECL models (Figure 3).

Figure 3: Examples of maintaining IFRS 9 ECL models

Good examples observed

- Frequent updates of economic forecasts
- Continuous model monitoring of ECL model inputs and outputs with clear thresholds
- Increased level of judgement on credit risk
  - Sector analysis and sub-sector analysis
  - Due diligence on borrower cash flows
  - More involvement of credit experts in the analysis
- 4th alternative downside scenario for FEG
- Payment holiday does not mean auto stage 1
- More frequent model validations
- Quarterly refresh on key ECL parameters
- Sensitivity and what-if analysis

Bad examples observed

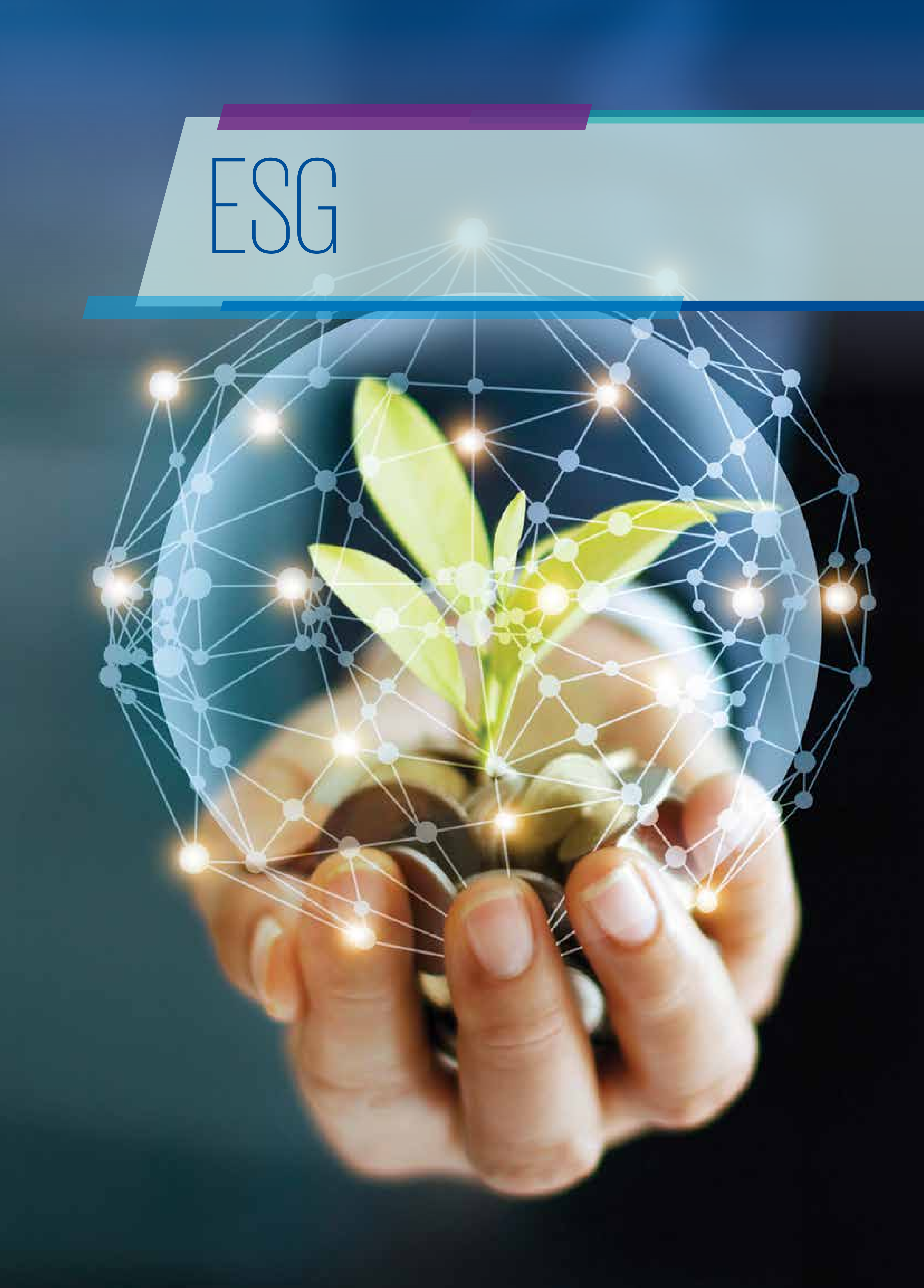
- Only annually refreshed economic forecasts
- Illogical probability weights on economic scenarios
- Point-in-time adjustments on ECL parameters were not made in more than 2 years
- ECL models were never properly validated, recalibrated or monitored in the past 1 year
- No specific adjustments made to ECL models for Covid-19 relief measures
- Over reliance on FIRB Basel parameters
- Lack of supporting documentation
- Model governance not clear and underperforming models not addressed
- High degree of model risk identified or model errors
- Incorrect use of EIR or lack of appropriate discounting

What should banks be doing?

The Covid-19 experience will certainly provide an adequate number of data points on which banks can redevelop or recalibrate their ECL models. We would suggest in the short term that banks consider the following actions:

- Undertake robust model review and model validation exercises to identify underperforming models;
- Stronger governance frameworks and supporting documentation for key judgements and overlays;
- More frequent estimations on input parameters and ECL estimates;
- "Alternative" macroeconomic scenario analysis to incorporate additional forecasts on the pandemic and recovery;
- Form an expectation on the time taken for "mean reversion" to a normal economic state;
- Sensitivity and what-if analysis to understand business impacts, model errors, and identify areas where overlays may be required; and
- Implement more automated model validation and model monitoring processes which can be run using readily available tools and algorithms.

ESG



ESG

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Strengthening climate resilience and capacity building the next steps for green and sustainable banking

Amid a challenging year, environmental, social and governance (ESG) issues and sustainable finance continue to be key areas of focus for both regulators and the banking industry in Hong Kong. While initial steps have been taken toward preparing banks to assess and manage climate risks, more needs to be done to integrate ESG into all aspects of the business and to nurture the right talent for the future.

In May 2019, the Hong Kong Monetary Authority (HKMA) introduced a three-phased approach to support the implementation of green and sustainable banking in Hong Kong. The first phase was completed in 2020, with around 50 banks conducting self-assessments as part of the HKMA's Common Assessment Framework, which measures an institution's readiness to manage climate and environmental-related risks. The HKMA found in its initial assessment that most banks are at an early stage of adoption for green and sustainable banking, and that climate risk scenario analysis and stress testing remain a major area for development.

Assessing climate resilience

The HKMA's next step this year is to consult the industry and other relevant stakeholders on developing supervisory requirements for green and sustainable banking to enhance climate risk management and increase industry awareness of climate risks and sustainability issues.

In its June 2020 White Paper on Green and Sustainable Banking,[24] the HKMA set out its views on supervisory expectations around how banks should address climate risks, covering governance, strategy, risk management and disclosure. One of the nine guiding principles laid out in the White Paper is that banks should build up their capability to measure climate-related risks using a range of methodologies and tools, including scenario analysis. On the back of this, in January 2021, the HKMA invited banks to participate in a pilot climate risk stress test exercise to assess the climate resilience of the banking sector.

[24] 'White Paper on Green and Sustainable Banking', HKMA, June 2020, https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200630e1a1.pdf

> *Banks will need to carefully assess the impact of physical and transition risk scenarios on other risks such as credit, market and operational risk, and apply the results of the stress test to their overall enterprise risk management (ERM) framework and strategic plans for climate risk and ESG management.*

The stress test exercise requires participating banks to focus on both physical risk and transition risk. Physical risk refers to the financial impact of a changing climate – including more frequent extreme weather events and environmental degradation – which can result in property damage, reduced productivity or disruption to supply chains. Transition risk refers to an institution's financial loss that can result from adjusting to a lower-carbon and more environmentally sustainable economy. For example, an abrupt adoption of climate and environmental policies, technological progress or changes in market sentiment and preferences could have an impact on transition risk.

Banks will need to carefully assess the impact of physical and transition risk scenarios on other risks such as credit, market and operational risk, and apply the results of the stress test to their overall enterprise risk management (ERM) framework and strategic plans for climate risk and ESG management. For example, banks might need to consider enhancing or updating their existing credit approval policies for high-carbon sectors as an application of the stress test result, which could increase funding costs for corporate customers operating in these sectors.

Increasing appetite for green products

From a product perspective, we continue to see increasing appetite for green and sustainability-linked bonds and loans in Hong Kong. For example, Hang Lung Properties secured its first green loan from OCBC Bank in December 2019, while in January 2021 New World Development Company became the first real estate developer to issue USD and HKD-denominated sustainability-linked bonds, worth US$200 million and HK$1.5 billion, respectively.

In January this year, the Hong Kong Government also issued its second batch of government green bonds totalling US$2.5 billion. The Government plans to expand the scale of the Government Green Bond Programme and issue retail green bonds for the general public. Furthermore, in May, the Government issued a guideline consolidating the Pilot Bond Grant Scheme and Green Bond Grant Scheme into a Green and Sustainable Finance Grant Scheme, which aims to subsidise eligible bond issuers and loan borrowers' general bond issuance costs and external review costs.[25] On the back of these positive developments, we expect to see an increase in green and sustainability-linked bonds being issued in the market in the year ahead, as well as other new product offerings that meet ESG standards.

We also continue to see significant opportunities in the transition finance space as companies in higher-carbon sectors seek to move toward a more environmentally sustainable business model. For example, in February this year Castle Peak Power Company, whose parent company is CLP Holdings, issued a US$300 million Energy Transition Bond in support of Hong Kong's transition to a low-carbon economy. We expect to see more of these types of issuances in the year ahead.

[25] 'Guideline on the Green and Sustainable Finance Grant Scheme', HKMA, May 2021, https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2021/20210504e4a1.pdf

ESG

> *The initial focus on climate risk and the results of the stress test exercise should form part of a bank's overall ESG roadmap. This entails setting a firm-wide ESG strategy covering all aspects of governance and planning through to disclosure and communication, and embedding this strategy across the organisation.*

Nurturing and training talent

Ultimately, the initial focus on climate risk and the results of the stress test exercise should form part of a bank's overall ESG roadmap. This entails setting a firm-wide ESG strategy covering all aspects of governance and planning through to disclosure and communication, and embedding this strategy across the organisation. Understanding the importance of aligning tax strategy with the broader ESG agenda is also key. In our view, the banks that get this right will be the ones that ensure responsibility and ownership of the ESG agenda at the board level in order to effectively implement the ESG strategy across the organisation and encourage collaboration across functions.

Importantly, the successful development of a comprehensive ESG strategy and integration across the organisation hinges on the banking industry's ability to nurture new talent and upskill the existing workforce. This is an area that Hong Kong's regulatory and industries bodies are acutely aware of. For example, the newly formed Green and Sustainable Finance Cross-Agency Steering Group, co-chaired by the HKMA and the Securities and Futures Commission, issued its Strategic Plan in December 2020 to pave the way forward for Hong Kong. The Strategic Plan outlines a key goal of expanding and strengthening Hong Kong's overall green and sustainable finance capabilities through greater capacity building of local expertise to fill skill gaps and build up market knowledge.

There is certainly a greater need for capacity building in the banking sector, especially as ESG becomes increasingly integrated throughout organisations. Addressing this challenge does not just mean increasing investment in risk management teams, but also on training relationship managers in both corporate and private banking on what ESG and sustainable finance means to their day-to-day practice, and how to effectively communicate with and educate their clients accordingly.

While the increasing regulatory focus to promote green and sustainable banking is a positive step, banks still have significant room to develop in this space. In fact, there are a number of opportunities for banks that get this right, such as new and innovative products and services, access to new markets and clients, and overall climate resilience. Leading banks will also understand that ESG is no longer just a thematic item, it is an integral part of banking that needs to be comprehensively integrated throughout the business.

Rani Kamaruddin
Partner, Head of Financial Crime, Hong Kong
KPMG China

Greater alignment between financial crime compliance and ESG is the way forward

The Covid-19 pandemic has transformed the banking industry, with institutions rethinking their business and operating models and ways of working. As the pandemic drags on into its second year, the pursuit of innovation and acceleration of digitalisation are expected to stay at the top of banks' agendas. Banks in Hong Kong are expected to increase their technology adoption in the area of financial crime, where although the adoption of technology such as Regtech is deemed the most mature,[26] institutions still face practical challenges that could be solved with more advanced technology solutions. Our discussions with banks tell us that delivering excellent customer experience, reducing operational costs and strengthening effectiveness in managing financial crime risk are the key desired outcomes in the financial crime space to remain competitive and to succeed in the long-term.

The fact that banks view customer experience as a key component of the financial crime agenda is positive, and indicates a recognition that the hard-earned trust that banks gain from customers and the public can be lost in an instant if banks are perceived not to be acting in the best interest of their customers. For example, one area under close scrutiny from customers and investors alike is how banks respond to issues like fraud – including those that take place in cyberspace – to ensure their customers' money and data are protected and demonstrate that they are taking the issue seriously.

In thinking about their strategy to succeed in the long-term, banks cannot ignore the pivotal role they can play in rewiring the economy to deliver sustainable outcomes with environmental, social and governance (ESG) factors in mind. But how does the topic of financial crime relate to ESG?

> *As institutions providing capital to businesses, banks are at a crossroads in terms of whether they choose to approach ESG from primarily a compliance/risk angle, or as an opportunity to influence businesses approaching them for financing to set ambitious transition plans in the face of growing climate-related risks, and to work with them to design the finance plan they need to mitigate the risks of stranded assets, workers and communities.*

Financial crime and ESG: a logical connection?

Sustainability risks, also referred to as ESG risks, urge banks to view risk not only from the impact on the institution itself, but also the impact the bank is having on its stakeholders, the environment and its communities due to its business activities.[27] As a lender of capital to businesses, banks are best positioned to steer capital toward economic activities that support the future that we want, and away from activities that we do not.[28] Know Your Customer (KYC) procedures were designed to understand a customer, their business intent, purpose, strategy and business activities. Armed with that information, banks assess the potential for financial crime risks that society and the bank itself could be exposed to from the relationship. The process could be leveraged to understand the business activities and the financing needs of the business. Unfortunately, without proper governance, KYC has become a tick-box compliance exercise without the desired depth of understanding of a customer.

[26] Transforming Risk Management and Compliance: Harnessing the Power of Regtech', HKMA, November 2020, https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2020/20201102e3a1.pdf
[27] ESG risks in banks, KPMG, May 2021, https://home.kpmg/cn/en/home/insights/2021/05/esg-risks-in-banks.html
[28] Rewiring the Economy: Ten tasks, ten years', Cambridge Institute for Sustainability Leadership, November 2017

ESG

The growing importance of ESG calls for leadership from banks and businesses alike to consider the long-term impact of their activities on all of their stakeholders, including investors, customers, employees, business partners and the environment. As institutions providing capital to businesses, banks are at a crossroads in terms of whether they choose to approach ESG from primarily a compliance/risk angle, or as an opportunity to influence businesses approaching them for financing to set ambitious transition plans in the face of growing climate-related risks, and to work with them to design the finance plan they need to mitigate the risks of stranded assets, workers and communities. The latter paves the way toward a sustainable future and requires banks to break conventional compliance boxes and risk siloes to achieve a purpose of financing initiatives and proposals that truly deliver long-term value for the societies, environment and economies that businesses operate in and rely upon. Customer due diligence against this backdrop cannot be a tick-box exercise as it requires the consciousness of impact – the cause-effect relationships of decisions.

Banks play a gatekeeping role in the detection, investigation and reporting of financial crime, including criminal offences related to unjust enrichment from unethical practices such as fraud, bribery and corruption. While not yet codified in national regulations, financial institutions that are ahead on ESG have already integrated ESG into their KYC processes. An ESG lens asks banks to up their game and requires that banks understand their customers' business activities within the context of their impact on the environment or society, or whether business practices undermine transparency, integrity and financial stability. We believe that the review of a customer's sources of funds and/or wealth that is expanded to cover the dimension as to the extent that business activities have played a role in garnering wealth at the expense of the environment and/or society is not too far away.

"Directing financing to a business whose activities have adversely impacted local communities and/or the environment in the supply chain can arguably outweigh the implications of making the press for having to pay a regulatory fine for failures in controls to mitigate financial crime risks."

Banks should also seek to harness data to enable better decision-making, including when screening customers not only for sanctions and involvement in white collar crime, but also for business practices that could be indicative of environmental crime, non-compliance with labour-standards, violations of human rights (e.g. modern slavery, human trafficking) and sector-specific damaging practices, e.g. waste pollution, illegal logging or mining, wildlife trafficking and other criminal offences.

Furthermore, the monitoring of transactions should be expanded to look beyond the immediate customer to better understand the network of financial relationships their customer has to assess if these align with the bank's understanding of the customer's ESG plans. Directing financing to a business whose activities have adversely impacted local communities and/or the environment in the supply chain can arguably outweigh the implications of making the press for having to pay a regulatory fine for failures in controls to mitigate financial crime risks. This is not to downplay the seriousness of failing financial crime-related controls, but rather to point out that the radius of impact from providing financing to such businesses is much larger as it affects the environment and communities.

Embarking on the journey

As banks continue to formalise their ESG strategy as an institution, they should consider the appropriate strategies they need to support their stakeholders (including their customers, employees, investors and business partners) in the transition toward a sustainable future. At present, ESG is often assigned to a dedicated team or unit. However, the scale of environmental and social challenges exceeds the capacity of one team and requires mobilisation of the bank as a whole. As part of this rethinking, we believe it is essential for ESG to become mainstream. Externally, banks should collaborate with the public and private sectors to achieve targets that deliver the most impact. Internally, banks should embed ESG across their businesses and functions, which includes financial crime compliance and risk management, to effectively execute their ESG strategy.

This does not mean that banks should lose sight of their focus on their role as gatekeeper in guarding the financial system against financial crime. But the ability to apply a broader ESG perspective can help banks do right by their customers, the environment and their community, safeguard trust, and ultimately gain a long-term competitive edge.

Transformation

Transformation

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More banks in Hong Kong will seek to adopt Regtech solutions as part of their regulatory-driven transformation journey

As banks seek to keep pace with a rapidly changing external environment, many are turning to Regtech to transform their risk management and compliance functions and gain a competitive edge.

> *In the year ahead we expect to see more proofs of concept and trialling of Regtech solutions as part of the banking industry's broader transformation agenda. This will be followed by more aggressive implementation as banks prove that they can automate a lot of their processes, activities and controls in the risk and compliance space.*

Regtech-related investment expected to increase

Banks are becoming more aware of the wide range of benefits that Regtech can bring, such as cost-effectiveness, increased operational efficiency, greater coverage of compliance and the potential to enhance customer experience and drive growth.

The intention to harness technology in the risk and compliance space is further emphasised by the Hong Kong Monetary Authority's (HKMA) support and focus on the adoption of Regtech and its underpinning technologies. The HKMA's White Paper on Regtech[29] – which KPMG was commissioned to help develop – finds that there is room for greater Regtech adoption in Hong Kong. While we have observed that many banks are currently allocating a limited amount of investment and headcount to Regtech, this is likely to pick up in the coming year as they focus on recruiting and training experts who can explore Regtech use cases and how to best apply them across the organisation.

The direction of travel toward greater Regtech adoption in Hong Kong is clear, underpinned by strong regulatory support. The regulators themselves are on their own Suptech development journey as well, as they continue to explore how they can better use technology and importantly the data they receive from banks to enhance their supervisory capabilities.

In the year ahead we expect to see more proofs of concept (POCs) and trialling of Regtech solutions as part of the banking industry's broader transformation agenda. This will be followed by more aggressive implementation as banks prove that they can automate a lot of their processes, activities and controls in the risk and compliance space. Banks that have already adopted solutions will also expand their use cases across more application areas.

[29] 'Transforming Risk Management and Compliance: Harnessing the Power of Regtech', HKMA, November 2020, https://www.hkma.gov.hk/media/eng/doc/ key-information/press-release/2020/20201102e3a1.pdf

> *Banks that are more likely to successfully adopt Regtech solutions demonstrate an openness to technology, foster a culture of innovation and have strong support from senior management. Importantly, we believe that banks can only truly drive innovation if they are prepared for their Regtech POCs and trials to potentially fail.*

There will be increasing depth in the application of Regtech in the Financial Crime space, while the breadth of Regtech adoption will also increase as more banks deploy solutions across other areas such as Regulatory Compliance Obligations and Governance and Accountability. These areas have historically been more challenging for banks as they are much more manual and interpretation-based, and use cases may take more time to identify. As regulators start to disseminate their obligations to the market in a more digital way, we are starting to see services emerging that centralise all compliance obligations, and technology that allows banks to better understand the impact of those obligations on their operations.

Overcoming barriers to adoption

Challenges do remain for banks that want to adopt Regtech. In the HKMA's White Paper, budgetary or resource constraints and the lack of available solutions/maturity of solutions were viewed as the top two adoption barriers for banks in Hong Kong. While this finding is in line with what we are seeing in the market, we believe that as banks explore Regtech solutions in more detail, they will find that there is actually a wide range of potentially suitable solutions in the market. We have seen that banks with higher levels of Regtech adoption are more active within the Regtech ecosystem and are more open to partnerships and collaboration. This may be obvious, but we believe that this openness to Regtech and participation in the ecosystem can lead to the realisation of greater benefits such as efficiency, better monitoring coverage and in some cases an enhanced customer experience.

Banks that are more likely to successfully adopt Regtech solutions also demonstrate an openness to technology, foster a culture of innovation and have strong support from senior management. Importantly, we believe that banks can only truly drive innovation if they are prepared for their Regtech POCs and trials to potentially fail. The key here is to build success stories in order to build momentum. One way is to break a pain point down into detailed story points or components, which can then be automated in a controlled way. It also shows how the adoption of technology can be applied using a practical approach. Nonetheless, it is essential that banks at least embark on the journey in order to demonstrate initial success and then build momentum.

Overall, it is encouraging to see that banks are starting to realise that Regtech is the way of the future for cost-effective regulatory compliance. In order to build on this momentum and maintain a strategic advantage in the long run, banks should increase their awareness of the available Regtech solutions in the market and their potential benefits, get more involved in the Regtech ecosystem, invest in Regtech-focused employees and related training, establish a culture of innovation and support, and put suitable systems, data and infrastructure in place to be able to deploy new solutions seamlessly.

Transformation

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Facing revenue and cost pressure, banks are accelerating their transformation initiatives to adapt and grow

With revenue and cost pressure mounting, banks are seeking to accelerate their transformation efforts to enhance customer and employee experience, reduce costs and adapt to new ways of working.

Key drivers

Apart from regulatory-led factors, there are a number of key themes that are driving transformation in the banking sector. First and foremost is the significant impact that Covid-19 is having on operating models and ways of working. Many banks are committed to offering some form of hybrid working model for both their clients and staff on a longer-term basis, and will therefore need to make appropriate investments and take the necessary transformation steps to enable this.

In addition, banks continue to focus on managing costs as a key lever to maintain profitability. The last year has seen greater pressure on revenue and profit margins, which are acting as catalysts to pursue transformation to do things better, faster and more efficiently.

Enhancing the customer experience, supported by digital initiatives and innovation, remains a key driver of transformation. In particular, as the pandemic leads to new – and potentially permanent – ways of working, it is essential for banks to rethink their value propositions and accelerate their digital initiatives to keep pace with fast-evolving client expectations. KPMG's analysis of the impact of Covid-19 on Hong Kong consumers' behaviours finds that banking customers are expected to increasingly use digital channels for standard daily activities, and view quality of products and services (49% of survey respondents) and customer experience (45%) as the most important factors when purchasing banking products.[30] There is also increasing demand among private wealth management clients in Hong Kong for digital channels across the whole advisory process, especially in investment research (73% of survey respondents), portfolio reporting (61%) and anti-money laundering transaction reporting.[31]

[30] 'Impact of COVID-19 on Hong Kong Consumers' Behaviours', KPMG and gini, November 2020, https://home.kpmg/cn/en/home/insights/2020/11/impact-of-covid-19-on-hong-kong-consumers-behaviours.html

[31] 'Hong Kong Private Wealth Management Report 2020', KPMG China and the Private Wealth Management Association, November 2020, https://home.kpmg/cn/en/home/insights/2020/11/hong-kong-private-wealth-management-report-2020.html

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Lastly, there is a need to transform to improve the employee experience. Banks want to ensure that they offer an enhanced working experience in order to hire and retain top talent, and transforming ways of working and thinking can help to achieve this. These changes include a renewed focus on more lifestyle integration, health and well-being, and embedding these ways of working into the overall transformation roadmap. This is particularly necessary in view of the increasingly active recruitment market where many banks are competing to attract wealth management talent.

Key considerations for a successful transformation

Banks are aware that they need to transform to keep pace with the rapidly changing business environment. However, the practical aspects of executing a transformation programme almost always has its challenges. In our view, there are several key factors that banks should consider to set themselves up for success.

The first is the level of commitment that banks are actually putting into their transformation programme. For the larger international banks in Hong Kong, they should ensure that there is alignment globally and address any issues relating to local regulatory or cross-border complexity, budgetary approvals and scalability.

The second key factor is the actual level of commitment of people and resources to the transformation programme in Hong Kong. Transformation can often lead to significant changes to the future operating model, and banks need to ensure they have the right level of involvement from the business side. While transformation is not new, given that banks are experiencing change at a larger scale than before, greater business involvement is essential. Agile delivery of transformation programmes is now part of the new normal, and with that comes the expectation of internal stakeholders that impactful change and iterative improvements will be continuous.

Lastly, it is essential for banks to understand and demonstrate how their customers will ultimately benefit from the transformation. This can sometimes be hard to measure when base data is scarce and regular customer metrics are not part of the organisation's metrics and measures. As such, there is a need for robust programme management to ensure that the vision is tied to the reality on the ground. This should be supported by clear objectives and metrics to measure success and achieve the desired results. These metrics need to be evaluated in a frequent and timely manner to ensure that leadership and the business are able to experience continuous impactful change. Implementing a framework for collecting and analysing customer feedback is an important component. Getting all this right, however, can be challenging from a practical perspective. Banks should therefore consider exploring opportunities to work with external experts and solutions that can leverage their experience and best practice across different industries, organisations and markets.

Transformation

More partnerships between banks and third parties

Partnerships between banks and fintech or technology players are also becoming more common as part of the transformation journey. Compared to a few years ago, we have observed that there is a greater acceptance among banks of adopting third-party solutions to solve their problems. However, many banks still need to address ongoing constraints around legacy architecture and security concerns (especially related to cloud-based solutions), which can slow down their transformation efforts. Furthermore, banks should have adapted their third party management processes to allow them to proceed with these types of partnerships with fintech and technology players in an efficient manner. This involves ensuring that there is a clear path for onboarding, risk assessment and management, or risk slowing down the pace of transformation.

Importantly, any successful digital transformation is built on strong data foundations. Ensuring that data is accurate, maintained and secure will help banks to enable and power the digital initiatives and solutions being adopted.

Overall, while the underlying drivers for transformation might differ among banks, there is not a single institution that is not undergoing some form of change. While there are a number of key aspects of transformation that banks need to consider, we believe that clear communication and ownership of the programme is a critical factor in determining long-term success, especially since the people who start the transformation are often not the ones who finish it. It is therefore crucial that banks articulate their vision clearly across the organisation, bring their clients and teams along on the journey and tie it to clear metrics and measures of success that are evaluated on an ongoing basis.

> *One crucial consideration is for banks to understand and demonstrate how their customers will ultimately benefit from the transformation. This can sometimes be hard to measure when base data is scarce and regular customer metrics are not part of the organisation's metrics and measures. As such, there is a need for robust programme management to ensure that the vision is tied to the reality on the ground.*

Wealth

Wealth

Edna Wong
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Wealth Management Connect should be integral to banks' overall digital and GBA strategies

Seeking new avenues for growth, a number of banks in Hong Kong are gearing up for the imminent launch of the Greater Bay Area (GBA) Wealth Management Connect to expand their wealth management business and attract new clients.

In a landmark development as part of the overall GBA initiative, the Wealth Management Connect scheme was jointly announced by the People's Bank of China, the Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Macao in June 2020. Additional details, including amendments to the draft rules, were recently released in May this year, another key step toward the scheme's launch. The scheme would allow residents of the mainland Chinese cities in the GBA to invest in eligible investment products distributed by banks in Hong Kong and Macau, and vice versa.

While the scheme will initially permit only simple low-risk investment products with cross-boundary fund flows subject to aggregate and individual investor quotas, it has been positively received by the financial services industry.

Many banks in Hong Kong are eager to be the first to join the Wealth Management Connect scheme, and are actively preparing for the launch by conducting health checks in order to be ready to submit self-assessments to meet HKMA requirements once the scheme goes live. The recently released amendments to the draft rules have also helped to provide more clarity around the requirements. We also continue to see banks actively looking for suitable partners in mainland China, as the arrangement currently allows more flexible partnership arrangements between banks in Hong Kong and mainland China.

> *Wealth Management Connect can be viewed as the first step toward bigger opportunities. The successful launch of the scheme could lead to further enhancements in the future such as allowing a wider scope of products, a relaxation on quotas, or more flexibility around customer onboarding.*

Integrating the scheme into a broader plan

With a prolonged low interest rate environment putting pressure on NIM as a key source of revenue for banks, many are seeking to generate income from other avenues such as fee-based wealth management activities. This is another reason why many banks in Hong Kong view the Wealth Management Connect scheme as an integral part of their overall growth strategy. Indeed, Wealth Management Connect can be viewed as the first step toward bigger opportunities – the successful launch of the scheme could lead to further enhancements in the future such as allowing a wider scope of products, a relaxation on quotas, or more flexibility around customer onboarding.

Furthermore, banks' plans for Wealth Management Connect should fit nicely into their overall digital strategy as it is expected that banks will leverage digital channels to distribute qualified products under the scheme. In our view, banks can use the launch of the scheme as a trigger point to secure more budget for their digital strategy, such as for their digital wealth management or broader e-banking propositions as Wealth Management Connect allows them to reach a wider audience.

Planning for the Wealth Management Connect scheme has also been a catalyst for many banks to proactively think about their broader strategy for the GBA. Our recent industry surveys and discussions with banks in Hong Kong have found that previously many banks had no concrete plan or strategy for the GBA. However, the announcement of the Wealth Management Connect scheme has spurred a lot of banks into action to devise a roadmap for their development in the GBA.

Interestingly, for compliance teams at banks, many of the components of the Wealth Management Connect scheme are not new as areas relating to products and onboarding remain business as usual. However, the business side is in a different position and may need additional guidance and support from an operational standpoint and training frontline staff.

As official guidance is released, banks will need to rapidly assess their readiness against the final requirements and ensure that their technology and operational setups are both efficient and compliant. We believe that the banks that are the best prepared and first to market will be able to enjoy a competitive advantage from a business development perspective, given the pent-up market demand for wealth management products and services. The banks that are likely to succeed will view Wealth Management Connect as not just a standalone opportunity, but instead as part of their overall wealth management and GBA strategies which are core to their future growth in an ongoing challenging environment.

> *"Planning for the Wealth Management Connect scheme has also been a catalyst for many banks to proactively think about their broader strategy for the GBA."*

Wealth

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> *"The rapid increase in wealth generation in mainland China and the country's sharp economic rebound from the pandemic, coupled with increasing international investor appetite for RMB-denominated assets, further highlight the vital role that Hong Kong has as an international wealth management centre in facilitating investment flows to and from the Mainland."*

Hong Kong's status continues to grow as a key connector and international wealth management centre

Hong Kong's private banking and wealth management industry remained resilient in the face of a number of challenges over the past few years. It has weathered US-China trade tensions, social unrest in Hong Kong, and even managed to thrive in the midst of Covid-19. According to the Securities and Futures Commission's (SFC) latest Asset and Wealth Management Securities Survey,[32] industry assets under management (AUM) increased significantly by 19% to HK$9.1 trillion (US$1.2 trillion) in 2019, up from HK$7.6 trillion (US$ 1 trillion) in 2018.

While these figures pre-date the onset of Covid-19, wealth managers' financial results for 2020 have also shown significant growth. Furthermore, despite recent perceptions or predictions of capital outflows from Hong Kong, the city has experienced continuous inflows.

International private banks and wealth managers continue to seek out new opportunities for growth in the region, using Hong Kong as a key pillar to achieve their ambitions. Many have also recently announced major hiring plans in the city to scale up their wealth operations. In particular, the rapid increase in wealth generation in mainland China and the country's sharp economic rebound from the pandemic, coupled with increasing international investor appetite for RMB-denominated assets, further highlight the vital role that Hong Kong has as an international wealth management centre in facilitating investment flows to and from the Mainland.

Hong Kong as a springboard into mainland China

Mainland China remains the biggest growth opportunity for most international private banks and wealth managers in Hong Kong, with the Greater Bay Area (GBA) a key driver. The imminent launch of the GBA Wealth Management Connect scheme is a particularly significant opportunity. While the scheme will initially provide simple investment products aimed at mass affluent clients, a successful rollout could signal further opportunities in the future that could benefit wealthier segments, and therefore private banks. Furthermore, as mainland China's financial services sector continues to open up to foreign investment, more international wealth managers are seeking to capitalise on this growth opportunity and establish an onshore presence, using Hong Kong as a springboard.

A number of international and regional private banks and wealth managers have moved to enter the mainland China market or expand their existing onshore operations, including Credit Suisse, HSBC, DBS Bank and UBS. International banks looking to expand onshore are likely to leverage and apply global best practices to their onshore operations, while ensuring that their offerings are suitably tailored for the local market – one that is unique, competitive, more digitally aware, and very different to other markets.

[32] 'Asset and Wealth Management Activities Survey 2019', SFC, August 2020, https://www.sfc.hk/web/files/ER/Reports/AWMAS_2019_EN.pdf

Hong Kong as a centre for mainland Chinese wealth

On the flip side, Hong Kong remains an attractive jurisdiction for mainland Chinese investors to access international markets. This is a result of increasing demand from high-net-worth individuals and other mass affluent investors in mainland China seeking to diversify their investments across a wider range of products and markets, and work with professionals who have in-depth experience in this space. The growing demand for wealth management products and services stems from both the intergenerational transfer of wealth, as well as new wealth being created by the next generation of entrepreneurs.

Hong Kong is well positioned to attract the wealth being created across the border, boasting a transparent and tested regulatory environment, a deep local and international talent pool, and world-class capabilities in professional services across law, accounting, tax, risk management and compliance. In addition, Hong Kong's diverse product suite and broad coverage across all asset classes leaves it well placed to serve mainland Chinese clients.

According to the Hong Kong Private Wealth Management Report 2020, which was jointly developed by the Private Wealth Management Association and KPMG China, surveyed private wealth managers indicated that on average 40% of their AUM is currently sourced from mainland China, up from 35% in 2019.[33] This figure is expected to increase to 54% by 2025, indicating the growing significance of mainland China to Hong Kong's wealth management industry.

We continue to see more interest from Chinese banks in exploring opportunities in Hong Kong as a suitable market for them to expand their offshore business. One recent example in January this year, Beijing-headquartered Puhui Wealth Investment Management announced the launch of its international development strategy by entering the Hong Kong market.

An increasingly competitive landscape

The wealth management landscape in Hong Kong continues to become even more competitive as traditional retail banks compete for market share not just with their peers, but also with the newly launched virtual banks and the emerging Wealthtech firms that are developing advanced B2B and B2C digital solutions.

When it comes to tackling the new competition, if the traditional banks can overcome their legacy issues and increase the pace of their own digital transformation, they will continue to be a force to be reckoned with in the market. Overall success will depend on the ability of private banks and wealth managers to build on their trusted brand status with comprehensive and seamless digital propositions and offerings that are tailored to the needs and expectations of the younger generation of clients, as well as to the increasingly digitally savvy overall client base.

"When it comes to tackling the new competition, if the traditional banks can overcome their legacy issues and increase the pace of their own digital transformation, they will continue to be a force to be reckoned with in the market."

We are also seeing banks increasingly seeking to partner with Wealthtech players in Hong Kong to leverage their advanced solutions and provide more personalised offerings to clients.

Ultimately, the increasingly competitive landscape in Hong Kong underscores the city's allure and standing as an international wealth centre. With Hong Kong remaining a connector between mainland China and the rest of the world, the city will continue to attract top talent and investment, and international banks will continue to seek to strengthen their presence to tap into the significant wealth opportunities in mainland China and the broader region.

[33] 'Hong Kong Private Wealth Management Report 2020', KPMG China and the Private Wealth Management Association, November 2020, https://home.kpmg/cn/en/home/insights/2020/11/hong-kong-private-wealth-management-report-2020.html

Hong Kong as an IFC and connector

Hong Kong as an IFC and connector

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As authorities in mainland China and Hong Kong continue to drive regulatory reforms with cross-boundary connectivity in mind, we believe that this provides an ever-increasing opportunity for international banks in Hong Kong seeking to expand onshore.

The increasing connectivity with mainland China provides a significant opportunity for banks in Hong Kong to expand onshore

With China continuing to open up its financial services sector to foreign investment, international banks are increasingly eyeing the opportunity to expand their presence onshore. Institutions across retail, commercial and investment banking continue to use Hong Kong as an essential base to pursue growth opportunities in mainland China, be it to tap into the Greater Bay Area (GBA) Wealth Management Connect, to connect their clients to the digital ecosystem onshore, or to provide access to domestic capital markets for their international clients.

Retail banking and wealth management

The key opportunity for retail banks and wealth managers is the GBA Wealth Management Connect scheme, which will allow mainland Chinese residents in the GBA to invest in eligible investment products in Hong Kong and Macau, and vice versa. Wealth Management Connect has been well received by international banks based in Hong Kong, which consider the scheme a vital part of their growth strategy both for the GBA and mainland China as a whole. Additional details about the scheme, which was first mentioned in a blueprint for the GBA's development in February 2019, were released in May 2021. The scheme is expected to facilitate a total fund flow of RMB300 billion in terms of investment product sales.

While China still has capital controls, it has in recent years introduced various cross-border trading schemes to gradually open up its markets, allowing mainland investors to diversify their investments. Wealth Management Connect is the latest development to increase financial services connectivity between mainland China and Hong Kong, and is the first cross-border scheme focused solely on the GBA.

Retail banks in the GBA will also continue to enhance connectivity by creating a more seamless banking experience across the region, including through cross-boundary remote account opening, payments and mortgage lending where regulations permit. As authorities in mainland China and Hong Kong continue to drive regulatory reforms with cross-boundary connectivity in mind, we believe that this provides an ever-increasing opportunity for international banks in Hong Kong seeking to expand onshore.

Hong Kong as an IFC and connector

We are seeing increasing interest and activity among banks and financial institutions in Hong Kong in expanding their retail and wealth management presence in mainland China. For example, Amundi's wealth management joint venture (JV) with BOC was launched in October 2020, marking the first foreign majority-owned company in China allowed to develop and offer wealth management products. Meanwhile, JPMorgan Asset Management announced in March this year that it would take a 10 percent stake – worth RMB 2.7 billion (US$415 million) – in China Merchants Bank's (CMB) wealth management unit. Goldman Sachs received regulatory approval to set up a majority-owned wealth management JV with ICBC in May, while BlackRock has been given the green light to launch its majority-owned wealth management JV with China Construction Bank and Temasek.

Furthermore, in 2020 HSBC launched HSBC Pinnacle, a new digital platform for wealth planning and insurance services in mainland China, which is currently serving customers in Shanghai, Guangzhou, Shenzhen and Hangzhou. These developments also indicate that foreign institutions are moving beyond institutional clients to serve retail customers as they seek to target the growing number of high-net-worth and mass affluent individuals in mainland China, many of whom are seeking greater product and geographical diversity for asset allocation purposes.

Commercial banking

We have observed that many international companies still struggle to connect to the vast digital ecosystem in mainland China in order to effectively serve their customers. The opportunity for international commercial banks lies in their ability to help these companies to plug into the digital ecosystem onshore, and to provide comprehensive transaction banking services and more seamless payments. The international banks that are able to navigate the competitive digital landscape to offer these services to their corporate clients will be best placed for success in mainland China.

In order to better serve their corporate clients onshore, international banks can consider forging partnerships and alliances with domestic financial institutions, fintech firms and other technology players. We have also seen some banks seek to develop their own fintech arm to drive growth and innovation, enhance their service offerings to clients, and ultimately grow their footprint in the market. International banks will also need to bring something to the table in order to successfully partner with other established players in the ecosystem. The setup and growth in China of SC Ventures, a business unit of Standard Chartered, to foster innovation, invest in disruptive fintech and explore alternative business models is one example of an international bank plugging into the digital ecosystem.

In addition to connecting international corporate customers to the digital ecosystem onshore, another opportunity for international commercial banks is to service the mainland Chinese companies that are seeking to establish a presence in Hong Kong as part of their overseas expansion plans. Arguably, some international banks in Hong Kong could do more to support and effectively capitalise on these two-way commercial banking opportunities. In our view, banks should do more on building up their capabilities across a number of areas such as agility, decision-making, as well as business strategy, risk management capabilities, overall investment and resources – in particular around data sharing and data security issues related to plugging into the ecosystem – to effectively capitalise on the commercial banking opportunities on offer.

Investment banking

Hong Kong has long been an attractive centre for fundraising, with a large number of banks competing to service companies seeking to raise capital in the city. There are significant opportunities for banks in Hong Kong to leverage their experience and expertise to help their international clients raise capital in mainland China as part of their onshore expansion plans. Indeed, these companies would ideally want to raise funds onshore in RMB, and therefore the ability to provide this service effectively could provide a significant competitive advantage for international banks.

International investment banks, upon obtaining relevant licences, can really provide a more comprehensive service offering for large companies that are looking to expand and access the capital markets in mainland China. These offerings could include advisory on A-share listings, follow-on listings, fund management, brokerage, bond underwriting and other services offered by a typical investment banking business.

Keys to success

> *"Banks that are looking to expand onshore need to fully understand the depth of the competition in the market, and must be clear of their strategy and competitive advantage to be able to service a different type of clientele in a different regulatory and business environment."*

Ultimately, mainland China – and the GBA in particular – is an increasingly lucrative market for banks in Hong Kong, but it is also a fiercely competitive one. Banks that are looking to expand onshore need to fully understand the depth of the competition in the market, and must be clear of their strategy and competitive advantage to be able to attract local talent and service a different type of clientele in a different regulatory and business environment. As part of this, they should also seek to leverage their international connectivity to fulfil their global clientele's transaction/funding needs.

The past 12 to 18 months have seen a number of international banks take action to obtain various financial services licences in mainland China. For example, in addition to its 10% investment in CMB's wealth management arm, JPMorgan agreed to pay RMB 7 billion to acquire full ownership of its fund management company joint venture in China, and launched its majority-owned securities company in March last year. These moves have essentially provided them with access to different licences so that they can offer a wide range of products and services. After they have obtained licences either through new setups or brownfield acquisitions, international banks can start promoting synergies to customers across their product and service offerings. We continue to see several international banks with a sizeable presence in Hong Kong adopt this approach.

The keys to success for international banks in mainland China differ for each institution. But having a clear strategy and exploring all licensing opportunities can certainly place banks on solid footing to target a range of products, channels and customer segments. Forging the right partnerships and alliances in mainland China should also be a key consideration. In addition, the ability of international banks to effectively leverage their brand recognition in Hong Kong, as well as their product, operational, and risk management expertise, will be crucial in helping them to succeed onshore.

Geographical footprint should also be considered – for example, some banks may choose to focus on just Beijing, Shanghai or the GBA, while others may plan to expand nationwide. Whatever the strategy may be, it is vital for banks to ensure that they have the right talent on the ground, combining international best practice expertise from Hong Kong, and local talent in mainland China who have sufficient knowledge of the digital and fintech landscape, strong regulatory relationships and understanding of the regulatory environment, and who fully understand the client and how to do business in China.

Hong Kong as an IFC and connector

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Hong Kong remains a key springboard for mainland Chinese banks to achieve their global ambitions

As Chinese companies continue to grow and increase their influence overseas, Chinese banks are seeking to follow their clients and expand their reach abroad, with setting up operations in Hong Kong seen as an important first step.

Looking back five or ten years, Hong Kong had witnessed a flurry of mainland Chinese banks setting up operations in the city as a means to increase their international presence and tap into Hong Kong's diverse talent pool, access to international companies and investors, and fair and transparent regulatory regime.

While this trend has slowed down somewhat in recent years – partially due to factors such as the onset of Covid-19 and social unrest which deterred or delayed expansion plans – there is still a strong desire among Chinese banks to set up operations in Hong Kong as a first step in expanding their global network and presence. Over the last two years, we have seen banks such as China Bohai Bank, Bank of Dongguan, China Guangfa Bank, Hua Xia Bank and Ping An Bank obtain licences to operate in Hong Kong.

"While Chinese banks' expansion plans had historically focused largely on Europe and Africa, we continue to see a significant shift in strategy and investment towards Southeast Asia."

Shifting focus toward Southeast Asia

While Chinese banks' expansion plans had historically focused largely on Europe and Africa, we continue to see a significant shift in strategy and investment towards Southeast Asia. ASEAN overtook the European Union as China's top trading partner in 2020, with trade volumes hitting RMB 4.74 trillion (US$732 billion). As an increasing number of Chinese companies make a foray into the region – both in sales and manufacturing – Chinese banks hope to follow suit in order to effectively serve their corporate clients.

As an international financial centre, Hong Kong remains both a practical and attractive place for mainland Chinese banks to set up shop as the first step in expanding abroad, including to Southeast Asia. The city's legal and regulatory system, deep and diverse talent pool, international experience and status as a risk management hub further add to the appeal. Importantly, Chinese banks can also use Hong Kong as a centre to train their employees to familiarise them with international practice and equip them with a global mindset, before taking these learnings abroad to different jurisdictions.

Evaluating the reasons for expansion

Mainland China's banking landscape comprises a wide variety of banking institutions, and their reasons to expand abroad may vary. For example, growth plans for the large state-owned banks may be more government-led or tied to national priorities, while the joint-stock banks might evaluate potential expansion into Hong Kong based on the potential profitability of the venture and the ability to meet the needs of existing customers. After expanding into Hong Kong, they will need to consider whether they can expand into other markets depending on the business needs of their clients. Lastly, the Chinese policy banks may pursue overseas ambitions with the responsibility of providing funding and facilitating the ongoing development of the Belt and Road Initiative.

As the global economy recovers – especially in China and the ASEAN region – we expect a number of these banks that are already operating in Hong Kong to invest more resources to further build up their international capabilities in Hong Kong. These investments may come in the form of additional headcount or a larger physical footprint in Hong Kong, as well as in workforce training and development.

Overall, despite a period of sluggish growth globally, many Asian economies are slowly but surely starting to emerge from the crisis. For Chinese companies, ASEAN is expected to continue to be the primary trading partner and key growth opportunity, with ongoing tensions between the US and China further indirectly driving this trend.

We expect Chinese banks to therefore seek to follow their clients to serve them in the ASEAN market, with the first step involving the setup of new operations – or the expansion of existing operations – in Hong Kong before branching out. The continued expansion overseas in the years to come could see some China banks follow in the footsteps of major players such as Bank of China in expanding their global reach to successfully develop into a regional bank.

> *As an international financial centre, Hong Kong remains both a practical and attractive place for mainland Chinese banks to set up shop. The city's legal and regulatory system, deep and diverse talent pool, international experience and status as a risk management hub further add to the appeal.*

Hong Kong as an IFC and connector

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With the growth opportunities clear, international banks are turning their GBA plans into reality

The Greater Bay Area (GBA) continues to rapidly develop, on the back of strong national and regional GDP growth and business interest in the region despite a challenging 12 to 18 months as a result of Covid-19. International banks are increasingly viewing the region as a key opportunity for investment and growth, with the imminent launch of the Wealth Management Connect scheme a key driver.

Increasing investment into the region

We continue to see the GBA becoming a more integral part of international banks' business and growth strategy. While many banks started to develop plans for the GBA a few years ago, we are starting to see several institutions turn their plans into action and make sizeable investments in the region. Last year, Standard Chartered announced a US$40 million investment into the setup of a GBA Centre in Guangzhou, while HSBC announced this February that it is establishing a GBA Office. Meanwhile, JPMorgan Asset Management announced in March this year that it would take a 10 percent stake – worth RMB 2.7 billion (US$415 million) – in China Merchants Bank's wealth management unit.

> *While many banks started to develop plans for the GBA a few years ago, we are starting to see several institutions turn their plans into action and make sizeable investments in the region.*

In April, DBS Bank announced that it would acquire a 13 percent stake in Shenzhen Rural Commercial Bank (worth RMB 5.3 billion) as part of its strategy to accelerate its expansion in the GBA. Banks such as HSBC, Bank of East Asia and Standard Chartered have appointed GBA heads for their GBA business, further underscoring their growth ambitions for the region.

For international banks looking for suitable investment opportunities in the GBA, we observe that their key consideration is to find the right domestic partner that they can cooperate with to expand their business. In other words, it is not just about the size of the investment that the international banks are willing to make, but also the level of cooperation and synergy they can achieve with their partners in the region. For example, the investment into rural commercial banks can provide foreign banks with access to new customer groups that they might not have otherwise been able to target with their brand name or network alone.

Wealth Management Connect opportunities

Finding the right partner will also be important for banks seeking to tap into the opportunities presented by the GBA Wealth Management Connect. The scheme, which was jointly announced by the People's Bank of China, the Hong Kong

Monetary Authority and the Monetary Authority of Macao in June 2020, will enable residents of the mainland Chinese cities in the GBA to invest in eligible investment products in Hong Kong and Macau, and vice versa.

In May, the People's Bank of China, the Hong Kong Monetary Authority and the Monetary Authority of Macao circulated draft implementation rules for the GBA Wealth Management Connect for comments, and the major mainland China and Hong Kong banks have been actively responding. Hang Seng Bank, Standard Chartered and ICBC have started to prepare for system implementation, product design and risk control, while China Guangfa Bank, China CITIC Bank and Nanyang Commercial Bank have worked with system vendors on IT systems for the scheme.

With the successful launch of Wealth Management Connect potentially leading to further enhancements and relaxations, the scheme offers longer-term growth opportunities for banks in the region. This is particularly important as wealth management activities can help banks to generate new sources of income amid a prolonged low interest rate environment.

> *We expect to see increasing investment and more partnerships between international banks and fintech players in the GBA, leveraging Shenzhen's status as a key innovation and technology hub.*

Exploring partnerships with fintech firms

We expect to see increasing investment and more partnerships between international banks and fintech players in the GBA, leveraging Shenzhen's status as a key innovation and technology hub. For example, last January Standard Chartered made a strategic investment in Shenzhen-headquartered supply chain finance fintech firm Linklogis, which then launched an IPO in Hong Kong in April this year.

Investment in fintech is another option for international banks looking to expand in the GBA. The need to implement a comprehensive digital strategy should be a key consideration for international banks given their lack of a significant physical footprint in mainland China, the high costs of acquiring a physical presence, as well as customers' strong preference for advanced digital capabilities. In fact, we believe that alliances between international banks and fintech firms could be pivotal in determining banks' success, especially as many of the Chinese banks have already invested heavily in their digital transformation and technology solutions.

The competition for talent

With expansion plans for the region becoming a reality, international banks are also seeking to recruit and relocate talent to support their growth strategy. Several banks in Hong Kong have announced their intent to scale up their headcount in the GBA, as well as offering graduates work experience opportunities in the region as part of the Hong Kong Government's Greater Bay Area Youth Employment Scheme. With a key goal of the GBA initiative to facilitate the free movement of people, living and working in the region will become both easier and more attractive for talent.

Demand is high and talent shortages remain, however, as banks compete to find the right people who truly understand the regulatory and business environment to help their businesses thrive.

With the GBA continuing to develop and offer more tangible growth opportunities for the banking industry, we expect more international banks to use the year ahead to invest heavily in their capabilities in the region to set themselves up for long-term success.

Regulation

Regulation

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Managing conduct in the digital sales world - a new challenge for banks

There is little doubt that the Covid-19 pandemic has led to the proliferation of online platforms among traditional banks – which is also making them more competitive against virtual banks on the digital front – evidenced by the significant trading volumes experienced in 2020. However, the rapid adoption and consumption of banking products and services digitally has created new risks and heightened existing risks, such as conduct risk.

Conduct has long been a key area of regulatory focus. In recent history, the Global Financial Crisis was a turning point that spurred the introduction of robust investor protection measures and heightened regulatory scrutiny worldwide and in Hong Kong. The increasing importance of conduct was further highlighted in the Final Report of the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, which identified dishonesty and greed as the two main drivers behind misconduct. Banking regulations on the fair treatment of customers – such as the Treat Customers Fairly Charter in Hong Kong – have also served to reinforce the regulatory focus on conduct to customers.

The shift to digital

The shift from offline to online continues to rapidly evolve, with conduct risk in the digital space becoming a fast-increasing area of focus. For example, one of the four strategic priorities in the Financial Conduct Authority's business plan for 2020/21 is to deliver fair value in a digital age. The intended outcomes are to enable consumers to choose from products that meet their needs at a suitable quality and price, for digital innovation and competition to support greater value for consumers, and to ensure that vulnerable consumers are not exploited or targeted with poor value products and services, and access to key products and services is fair.

In Hong Kong, regulators have also sought to keep up with the pace of change over the past few years, with the Securities and Futures Commission (SFC) issuing its Guidelines on Online Distribution and Advisory Platforms in July 2019. The Guidelines identify six core principles which platform operators should comply with in the operation of their online platforms, and reiterate the importance of compliance with all conduct requirements. Hong Kong's regulators have also reiterated their focus on individual accountability and ensuring that managers-in-charge are actively involved in promoting the right culture throughout the organisation to manage conduct risk.

Regulation

Part of the regulators' focus on conduct and overall supervisory activities includes their ambition to develop and deploy more Suptech solutions. We believe the future of managing conduct risk for regulators will be through the use of Suptech and other technologies. This will have implications for banks around how they manage their data – and the skill sets they look for in their workforce – to ensure that they can prepare more real-time and granular information and reporting for regulators.

"The future of managing conduct risk for regulators will be through the use of Suptech and other technologies. This will have implications for banks around how they manage their data – and the skill sets they look for in their workforce – to ensure that they can prepare more real-time and granular information and reporting for regulators."

Striking the right balance

While the increasing regulatory focus has helped to shine a spotlight on conduct and has enhanced compliance, one outcome of these increased requirements is that the actual provision of products could become narrower. This is primarily due to banks' drive to strike the right balance between maintaining compliance and driving business. From a digital perspective, providing suitability via a digital methodology – without any human judgement or input – could actually have the effect of limiting the number of suitable products, which may not ultimately be beneficial to customers and the banks themselves.

We believe that there is therefore an increased need for financial institutions to find the right balance to offer the right products to customers while meeting compliance obligations. Banks could also seek to offer products that provide smarter robo-advisory. This is an area where we have seen relatively low take-up among banks in Hong Kong. While there are advanced robo-advisory firms in the market, there may be some hesitation from banks' compliance departments to go down that path, or customers might not be fully ready to accept robo-advice. Other reasons could be that there seems to be some resistance to moving into more portfolio-based suitability – which is best suited to robo-advisory – either because regulations are largely principle-based, more technology is needed to better manage clients' portfolios, or because Hong Kong has traditionally charged on a trade commission basis rather than a portfolio basis. It is therefore possible that the slower movement to portfolio-based suitability in Hong Kong may be a reason for the slower take-up in robo-advisory compared to other financial centres.

> *Banks can better serve their clients and minimise conduct risk by innovating their approach to investment selling through the digitalisation and automation of suitability.*

Suitability 2.0 and managing regulatory obligations

We also firmly believe that banks can better serve their clients and minimise conduct risk by innovating their approach to investment selling through the digitalisation and automation of suitability. This approach – which we define as 'Suitability 2.0' – can help increase efficiency, strengthen compliance and enable enhanced monitoring and reduction of mis-selling activities. Suitability 2.0 can also help to drive sales and improve profitability, shorten the lead time for product due diligence, improve execution speed, and provide greater accuracy over suitability assessments.

Taking a more digitalised and automated approach to suitability and implementing a robust sales suitability framework can help banks to reduce mis-selling, minimise conduct risk, manage conflicts of interest, and gain an overall competitive edge in the market.

Another key challenge for banks is not knowing the full extent of all their regulatory obligations. While conduct is one obligation, a lack of a comprehensive understanding of all requirements banks are subject to can also lead to lapses in conduct. Conduct traditionally comprised both human conduct (largely related to culture) and controls (whether banks have the ability to control the right conduct). But with the proliferation of online platforms and technology-enabled solutions, banks now have to understand obligations in a digital context. Banks need to pay careful attention to issues such as biases in artificial intelligence algorithms and data privacy, and the resulting impact these could have on conduct risk.

Looking ahead, the effects of the Covid-19 pandemic will continue to reshape ways of working and investing – online sales activity is expected to continue to increase, and we expect to see more use of robo-advisors, online platforms and discretionary portfolios. Given this trend, it is important that regulations keep up with the rapid pace of change. Conduct in the digital sales world will continue to be a key area of focus for regulators, and banks should ensure that they strike the right balance between selling the right products to customers and managing their regulatory and compliance obligations, which includes conduct risk. Getting this right for banks will not only help them manage risk, but it can also ultimately lead to better client outcomes and enable them to gain a competitive edge.

Regulation

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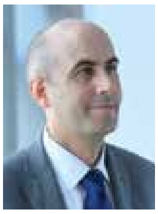

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Regulatory areas of focus are shifting to combat new and emerging risks for banks in the new reality

The onset of Covid-19 and the global economy's prolonged path to recovery have changed the nature of work and transformed business and operating models across industries and markets. The pandemic has also exacerbated certain existing risks and given rise to new risks, leading to heightened regulatory focus on a number of areas as authorities around the world strive to keep pace with the rapidly changing environment. Some regulatory developments are global or regional in nature, while others are more specific to Hong Kong, but all will have a significant impact on the future of banking.

In this article, we highlight key regulatory areas that banks in Hong Kong should focus on in the coming years. Many other important themes are covered in other sections of this report, including environmental, social and governance (ESG) and climate risk, model governance, LIBOR, financial crime and tax.

Managing Covid-related risks

The pandemic has exposed banks to increased risks as a majority of the workforce shifted to remote working, and operations and shared service centres were disrupted. The socioeconomic impact of Covid-19 has also opened the door to increased conduct risk and fraud.

An International Organization of Securities Commissions (IOSCO) paper on its priorities for 2021-2022 echoes this trend of an increasing focus on Covid-related risks relating to misconduct, operational resilience and fraud.[34] It also notes that the rapid growth in digitalisation, especially via social media, has radically changed how financial products are marketed and distributed, providing new opportunities for domestic and cross-border offerings. Indeed, we continue to see the boundaries becoming blurred as people increasingly obtain access to financial products across jurisdictions. Addressing and mitigating the risks posed by online cross-border marketing and distribution of financial products will be a key area of focus for regulators, especially as the world continues to become more digitally connected.

Notably, there has been a boom in online activity as a result of the shift toward work from home and remote working arrangements, which has opened the door to increased cyber risk and data privacy issues.

[34] 'IOSCO Board Priorities – Work Program 2021-2022', IOSCO, February 2021, https://www.iosco.org/library/pubdocs/pdf/IOSCOPD673.pdf

> *We expect the regulators in Hong Kong to start to introduce their own requirements around the measurement of operational resilience-related risks and how to manage those risks. Regulators will undoubtedly expect improved operational resiliency capabilities and for operational resilience to be embedded across all management decisions and business activities.*

The more time spent at home and online, coupled with individuals seeking to invest their excess disposable income and capitalise on market volatility, have also led to increased levels of trading activity. This surge in retail investing activity has also in some instances resulted in some unexpected outcomes, evidenced by GameStop's recent share price spike in the US. These types of market incidents are causing regulators worldwide – including in Hong Kong – to pay more attention to issues around market manipulation and misconduct. These incidents are also putting issues related to client transparency, best execution and conflicts of interest firmly under the microscope with regard to the business models of commission-free stock trading apps that many retail investors have been using. While the apps were offered to retail investors free of charge, they might not have been transparent as to how they make their money – which is often from the churning of transactions – which may not be in the best interest of the customer.

There are also concerns around what happened in the aftermath of the GameStop incident, where brokerage platforms experienced service disruptions and placed restrictions on trading, leading to lawsuits that allege that the apps deprived investors of gains, manipulated the market and acted in bad faith.

Strengthening operational resilience

We will continue to see a significant focus on operational resilience going forward. Covid-19, ongoing market volatility and evolving client expectations and ways of working highlight the need to be prepared for the possibility of multiple scenarios and their potential implications on banks' operational resilience. For example, lockdowns imposed in certain service centre jurisdictions due to the pandemic are likely to have impacted banks' ability to provide undisrupted core services for periods of time.

While there have been some principles for operational resilience recently issued by the Basel Committee on Banking Supervision in March 2021, we expect the regulators in Hong Kong to start to introduce their own requirements around the measurement of operational resilience-related risks and how to manage those risks. Regulators will undoubtedly expect improved operational resiliency capabilities and for operational resilience to be embedded across all management decisions and business activities.

Reassessing the effectiveness of OTC derivatives regulation

OTC derivatives regulations were introduced after the Global Financial Crisis to address some of the systemic risks arising from these instruments. Key measures that have been introduced by many jurisdictions include mandatory reporting regulations to provide regulators with greater transparency on the OTC derivative-related exposures taken by market participants, and mandatory clearing regulations which require certain categories of standard contracts to be cleared through a Central Counterparty thereby reducing the risk of default. Measures also include margin requirements for non-centrally cleared OTC derivatives, which also seek to address the credit risk arising from OTC derivatives through requiring market participants to exchange initial and variation margin. Finalisation and implementation of these regulations has been a complex multi-year endeavour, with a number of requirements phased in to provide market participants with sufficient time to prepare for the changes required to systems, processes and internal controls. Further delays resulted from the Covid-19 pandemic as timelines were adjusted to account for the additional operational challenges faced by financial institutions.

Regulation

> *Recent events have put the spotlight once again on the OTC derivatives market and dispelled any notion that the risks inherent in this product class had been fully addressed by the post-crisis reforms.*

The recent losses incurred by a number of financial institutions arising from total return swap positions taken by Archegos have prompted regulators to reassess the scope and effectiveness of the OTC derivative regulations. Questions are being asked about the effectiveness of the margin requirements for non-centrally cleared OTC derivatives, including their ability to address risks posed by market participants such as family offices which may fall outside the scope of the existing requirements. The Archegos case is also likely to cause regulators to further examine how they use the data collected by trade repositories through the mandatory reporting obligation. Greater emphasis on the investigation of early warning signals and red flags may be one outcome of this case, and this may require some changes to the existing reporting requirements. Overall, these recent events have put the spotlight once again on the OTC derivatives market and dispelled any notion that the risks inherent in this product class had been fully addressed by the post-crisis reforms.

Evolving cyber threat landscape

The proliferation of digital platforms, including online banking and rapid fintech and third party adoption and cloud deployment, is also exacerbating cyber threats. As people worldwide continue to plug in to the latest technologies for both work and leisure, this is creating more vulnerabilities for cyber criminals to exploit. Recent events such as the SolarWinds cyber attack and the Microsoft Exchange server hack further underscore how cyber risks continue to grow and the profound impact cyber incidents can have in an increasingly digital world.

The growing number of potential points of attack for cyber criminals and the damage that can be caused will continue to be a key focus area for regulators in Hong Kong, and should prompt banks to rethink and bolster their cyber risk management and fully integrate this into their overall enterprise risk management framework. The ability to strengthen cyber resilience to keep pace with the increased regulatory focus and fast evolving cyber threat landscape will be key to banks' long-term success.

Conduct risk and Hong Kong's investor identification regime

There has been a focussed effort on the part of the regulators in Hong Kong to preserve market integrity and prevent market abuse and misconduct. For example, in December last year, the Securities and Futures Commission (SFC) issued a consultation paper on the introduction of an investor identification (ID) regime to help the regulator detect suspicious trading activities and potential market misconduct in a more timely and efficient manner.

The investor ID regime, which would be in line with developments in jurisdictions such as the US, Europe, Australia, Singapore and mainland China, would enable the SFC to quickly obtain information about investors who place orders, and improve the regulator's market surveillance activities.

The investor ID regime, which is expected to be introduced in early 2022, also forms part of a broader trend of Hong Kong's regulators applying supervisory technology (Suptech) to generate more information and supporting analytics to enhance their supervisory activities.

> *The investor ID regime forms part of a broader trend of Hong Kong's regulators applying Suptech to generate more information and supporting analytics to enhance their supervisory activities.*

The emergence of virtual assets and central bank digital currencies

Market interest in virtual assets continues to increase, with more banks and other regulated financial institutions looking to tap into this space. This is also a growing area of interest for Hong Kong's regulators, with the SFC introducing new licensing requirements for virtual asset trading platforms and taking steps to include virtual assets under its regulatory purview.

Another key trend is the significant interest among governments and central banks around the world in exploring central bank digital currencies (CBDC). At the beginning of 2020, only 20 to 30 governments around the world were seriously considering developing a CBDC. Today, more than 70 jurisdictions across both emerging and established economies are engaged in CBDC research projects or pilot programmes.[35]

In September 2019, the Hong Kong Monetary Authority and the Bank of Thailand launched a joint initiative – known as Project Inthanon-LionRock – to explore how CBDC can be applied to facilitate cross-border HKD-THB payments between banks in Hong Kong and Thailand. The second phase of the project was launched in February this year to include the Digital Currency Institute of the People's Bank of China and the Central Bank of the United Arab Emirates.

We expect to see more developments and activity in the CBDC space in Hong Kong and the rest of Asia in the year ahead. The goal of using CBDC is to enable real-time cross-border transactions and provide policymakers with more real-time and granular visibility into monetary flows in the economy. Central banks and regulatory authorities will also need to strike the right balance between generating more granular and real-time data, and appropriately managing data privacy and data transfer considerations.

Implications of global relationships

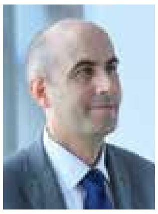
Relations between the US and China, as well as new regulatory developments for technology companies in mainland China are going to continue to have ramifications for Hong Kong's economy and banking industry.

Furthermore, in March this year, the US Securities and Exchange Commission enacted a law which could increase the auditing requirements for Chinese companies, and allows the regulator to delist companies that fail to comply with the rules. This is likely to have a significant impact on some US-listed Chinese companies in the coming years, and could have knock-on implications for the Hong Kong bourse as firms seek out other markets outside of the US to raise capital.

Separately, there has been increased regulatory scrutiny of large technology firms operating in financial services, or 'TechFins', in mainland China. This clampdown on monopolistic practices is expected to continue, and will likely alter the market landscape in mainland China and Hong Kong as the TechFins amend their business models and reassess the links between their payment arms and financial products to comply with the regulations.

[35] 'Banking blueprint for the crypto world', KPMG, 2021, https://advisory.kpmg.us/articles/2021/banking-blueprint-for-crypto-world.html

Regulation



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Ongoing economic uncertainty and the increasing use of artificial intelligence calls for more robust model governance

The unpredicted economic impacts of Covid-19 and the increasing use of artificial intelligence (AI) models are highlighting the importance of robust model governance to banks in Hong Kong.

The fallout from Covid-19

Model governance is not a new topic – it has been an area of focus for many banks for some time. However, the onset of Covid-19 and the economic disruption it has wrought has re-emphasised the importance of strong model governance.

For many banks, their existing models have been calibrated according to economic data that was based on pre-pandemic conditions. Then in a very short period of time, Covid-19 caused significant and unpredicted movements in areas such as unemployment, government relief measures and overall economic activity.

> *For many banks, their existing models have been calibrated according to economic data that was based on pre-pandemic conditions. Then in a very short period of time, rapidly changing economic circumstances mean that many of the underlying assumptions on which the models were based on are no longer valid.*

These rapidly changing economic circumstances mean that many of the underlying assumptions on which the models were based on are no longer valid. This has impacted a whole range of models, such as liquidity risk models, as assumptions around outflows and inflows were challenged by the economic conditions, market risk models as the pandemic impacted market liquidity, and credit risk models as government relief measures and other relief schemes potentially masked underlying credit risk.

With many models operating in economic and market conditions which are very different to those for which they were calibrated, it is therefore crucial that banks have a control framework that can address the resulting impact on the reliability of the model results.

Banks should ensure that they have an established model risk management framework with clearly defined roles and responsibilities across all three lines of defence. It is also important for the framework to have appropriate escalation mechanisms, and that decisions that are made around adjustments to the model output are subject to the right degree of challenge and review.

The increasing use of AI models

We are also seeing more use of AI models to help banks respond faster to and better predict Covid-19 impacts and other economic changes with more certainty. However, the emergence of AI solutions also raises a number of challenges for banks around model governance.

There have been instances where issues in AI models produced outcomes that have created risks for institutions. For example, an AI model that exhibits a bias towards credit decision-making and favours certain sections of the population over others can create unwanted reputational risk and conduct risk for banks. This calls for a thorough examination into the integrity of AI algorithms and the validity of the data that is going into the models.

There is also a challenge around the 'explainability' of AI models. There needs to be transparency, and those who are responsible for the governance of the model need to be able to understand the algorithmic decision-making process and explain the output of the model.

Banks that are increasingly deploying AI need to closely examine their model governance arrangements and make sure they are fit for purpose to address the specific challenges around the use of AI models. This involves ensuring that the AI models are fair, ethical and free from bias or prejudice, and that they are resilient in terms of technical robustness and compliance.

Ensuring accountability

Accountability for AI is also a key focus area for Hong Kong's regulators. For example, in 2019 the Hong Kong Monetary Authority issued guidance on the use of AI models and reminded institutions that their board of directors is still ultimately accountable for any decisions they make based on AI models. Furthermore, in the Securities and Futures Commission's (SFC) latest annual report the regulator highlighted that a key focus area is the use of mathematical models in business decision-making. This is a clear signal to financial institutions that the SFC is going to be more focused on AI model governance.

Ultimately, increasing regulatory scrutiny and the heightened risks arising from outdated models and the increased use of AI mean that it is essential for banks to refocus their efforts in ensuring robust model governance. Importantly, trust is imperative in enabling AI models to really take flight. Getting the key principles of integrity, explainability, fairness and resilience right – enabled through governance – can help banks increase operational efficiency, minimise risk, gain a competitive advantage and safeguard trust among key stakeholders.

"Banks that are increasingly deploying AI need to closely examine their model governance arrangements and make sure they are fit for purpose to address the specific challenges around the use of AI models. This involves ensuring that the AI models are fair, ethical and free from bias or prejudice, and that they are resilient in terms of technical robustness and compliance."

Regulation

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With the end of LIBOR on the horizon, banks should accelerate their efforts to ready themselves for the transition

With less than one year remaining before LIBOR is due to end (except for certain USD Libor tenors), banks have made good progress on the transition to the new rate regime. But, despite receiving a slight reprieve on the timeline for the phasing out of LIBOR-linked products, banks in Hong Kong still need to accelerate their preparations to implement a comprehensive programme for the transition toward alternative reference rates (ARRs).

Industry developments

In March this year, the UK Financial Conduct Authority (FCA) confirmed the cessation of LIBOR settings for all sterling, euro, Swiss franc, Japanese yen and the 1-week and 2-month US dollar settings. The remaining US dollar LIBOR settings will continue to be published for an additional 18 months until 30 June 2023. But market participants should not look at this as a greenlight to execute new trades or deals referenced to LIBOR out until June 2023.

Updates to LIBOR timelines:

- 1 January 2022: All existing GBP, EUR, CHF, JPY and USD 1-week and 2-month LIBOR tenor rates expected to cease publication.
  - All new products should be changed to ARR-referenced
  - Migration for all legacy products referencing to LIBOR currencies apart from the selected USD LIBOR tenors should be completed.
- 30 June 2023: Proposed extension of overnight, 1-month, 3-month, 6-month and 12-month USD LIBOR tenor rates to be published until 30 June 2023.
  - The potential extension for the selected USD LIBOR tenors may relieve some stress for the industry to migrate tough legacy contracts. However, it should not affect the overall transition timeline for new product development.

We have observed that several banks in Hong Kong are in a position to offer products referencing the new ARRs in terms of their contract preparation and system readiness. New contract templates referencing ARRs have been finalised and adequate fallback provisions have been drafted and are starting to be included in newly issued LIBOR contracts.

According to the Hong Kong Monetary Authority (HKMA), as of December 2020 there were HK$4.5 trillion of assets and HK$1.4 trillion of liabilities referencing LIBOR in the Hong Kong banking system, representing about 28% and 9% respectively of the industry's foreign currency denominated assets and liabilities.[36] The banking industry also had derivatives contracts totalling HK$30.7 trillion in notional value referencing LIBOR. 27% of these LIBOR-linked assets and liabilities, and 9% of these derivatives contracts would mature after the phasing out of LIBOR and did not have adequate fallback provisions.

These figures have decreased significantly in the last quarter of 2020, indicating that banks in Hong Kong are making progress in positioning themselves to offer ARR products, and in including adequate fall-back provisions to all newly issued LIBOR-linked contracts that will mature after 2021.

A third transition milestone developed by the HKMA and the Treasury Markets Association (TMA) last July – that by the end of June 2021 banks should cease to issue new LIBOR-linked products that will mature after 2021 – was deemed no longer appropriate in light of the updated LIBOR cessation timeline. The HKMA and TMA have pushed back this deadline to the end of 2021, allowing an additional 6-month period for banks to switch to offering relevant ARR products by the end of 2021.

Hong Kong banks' readiness

We have observed that several banks in Hong Kong are in a position to offer products referencing the new ARRs in terms of their contract preparation and system readiness. New contract templates referencing ARRs have been finalised and adequate fallback provisions have been drafted and are starting to be included in newly issued LIBOR contracts.

Banks have engaged in bank-wide internal training in recent months for front, middle and back office staff, covering the overall transition background, interest calculation, system upgrades and contract amendments. There has also been some movement in establishing a bank-wide communication plan to increase awareness among clients and the public.

What should banks do?

The adjusted timeline until the end of 2021 allows more time for banks to structure and refine their ARR products in terms of contract readiness, pricing models, operational and system upgrades and risk management aspects. However, as suggested by the HKMA, banks should not slow down their preparations around legacy LIBOR contract migration, renegotiation and new ARR product issuances, and should continue to proactively reach out to existing customers to ensure a timely and smooth transition.

We believe that a key focus for the months ahead should be on increasing staff and client awareness of the LIBOR changes. It is likely that not all staff have the same level of awareness about the transition – for example, many banks have not provided adequate training to frontline staff, which may expose their organisations to increased conduct risk. For example, a lack of awareness and training of frontline staff could lead to issues around transparency and treating customers fairly during the contract amendment process if staff are not equipped or encouraged to ensure that their clients understand the process, the different pricing options and contract amendment approaches, and their potential impacts.

[36] HKMA, https://www.hkma.gov.hk/eng/key-functions/banking/banking-regulatory-and-supervisory-regime/reform-of-interest-rate-benchmarks/

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Banks should therefore act quickly to implement a comprehensive bank-wide communication plan and relevant training activities for each of the main stakeholder groups to mobilise the organisation and to minimise operational, conduct and reputational risk. This includes increasing internal awareness and education to key front, middle and back office employees around the latest market updates and industry standards, and training frontline relationship managers on suitable client outreach and contract negotiation procedures. Externally, banks should seek to assess their conduct risk framework with regard to the LIBOR transition, develop a client outreach strategy, and respond quickly to regulator queries on their communication plan and corresponding action items. Importantly, active senior management support and involvement is crucial in order to effectively cascade the strategy across the organisation.

How should institutions be approaching client outreach?

- It starts with executive communication from senior management
- Create internal awareness and education material and provide training to key front, middle and back office stakeholders regarding market updates and industry standards
- Dynamic revision of LIBOR transition plans based on regulatory and market changes
- Analyse training needs, content refresh, infrastructure needs and updated communication strategies
- Provide continuous training for frontline relationship managers on client outreach and contract negotiation
- Communication letters/websites for customers, FAQs and playbooks
- Establish a hotline for client queries

Ultimately, banks should not be deterred by the adjusted timeline and instead push ahead with their preparations for the LIBOR transition. Those that are fully prepared for the transition by the end of this year will be best placed to offer their clients a wider range of ARR products while managing related conduct, operational, risk management and reputational risk, thus gaining a competitive edge in the market.

> *As suggested by the HKMA, banks should not slow down their preparations around legacy LIBOR contract migration, renegotiation and new ARR product issuances, and should continue to proactively reach out to existing customers to ensure a timely and smooth transition.*

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Imminent changes to operational taxes provide a significant opportunity for the industry to digitise, modernise and simplify processes

With a number of new developments relating to operational taxes expected in Hong Kong this year, there is a significant opportunity for the market participants to modernise processes, improve efficiency and make headway in discussions to further develop the securities market and broader financial services industry.

Foreign withholding tax and stamp duty changes on the horizon

In the operational tax space, withholding taxes remain a key focus area in Hong Kong. While Hong Kong generally does not impose withholding taxes on interest, dividends or capital gains, banks in the city often bear the brunt of foreign withholding taxes both on their own account and on behalf of customers.

We have also seen challenges resulting from the change in the Inland Revenue Department's assessing practice related to the claiming of tax credits for foreign withholding taxes, or at least receiving a deduction for those taxes suffered. This has created unnecessary uncertainty for the banking sector, although at the time of writing, legislation is expected to come into effect. This should provide greater clarity, and more explicitly should move Hong Kong back to a position whereby at the very least banks can claim a deduction for the foreign withholding taxes that they face where that income is subject to tax in Hong Kong.

Nonetheless, banks should seek to optimise their withholding tax position, and can achieve this by first identifying which withholding taxes they are subject to, then ensuring that they suffer the minimum leakage offshore and receive the maximum benefit for the tax suffered in Hong Kong. Key to this is often ensuring that the administrative requirements in order to benefit from reduced withholding tax rates are complied with, often through the provision of a tax residency certificate and completing other forms for the payer jurisdiction.

Regulation

> *Banks should seek to optimise their withholding tax position, and can achieve this by first identifying which withholding taxes they are subject to, then ensuring that they suffer the minimum leakage offshore and receive the maximum benefit for the tax suffered in Hong Kong.*

By revisiting the calculations that banks adopt in their Hong Kong tax computation, they can seek to maximise tax credits or deductions for foreign withholding tax. Banks can also leverage relevant technologies and solutions to enable them to better identify tax preferred products, understand their position, mitigate the downside and maximise the upside.

Another key area of operational tax that is very relevant in Hong Kong – and where we have seen new developments – is around stamp duty. Initially proposed in the Hong Kong Budget for 2021-2022, the Government has gazetted a bill to increase the rate of Stamp Duty on Stock Transfers from 0.1 percent to 0.13 percent of the value of each transaction. The bill is expected to take effect from 1 August this year.

While the rate increase may not seem significant for banks, the intermediary role they play involves taking principal positions in many trades, which will therefore lead to an increase in their costs. In fact, we continue to observe that many banks are facing challenges in dealing with all of their stamp duty obligations, which in some cases has led to the imposition of significant unanticipated stamp duty costs and material penalty exposure. Sometimes this is simply from an administrative point of view, but other times it is due to a more substantive failing. Regardless, in a scenario where penalties amounting to 10 times the amount of stamp duty are potentially applicable where there is a failure to appropriately comply with obligations, an increase in the stamp duty rate from 0.1 percent to 0.13 percent is going to magnify costs materially.

> *In anticipation of the uplift in the stamp duty rate, there is a view that some of the burdensome and manual administrative requirements that are imposed upon the banks that manage the collection of tax on behalf of the Exchange and Stamp Office could be simplified.*

Opportunity to digitise and modernise processes

On the other side of the coin, in anticipation of the uplift in the stamp duty rate, there is a view that some of the burdensome and manual administrative requirements that are imposed upon the banks that manage the collection of tax on behalf of the Exchange and Stamp Office could be simplified. Indeed, a lot of the administrative processes are from a less digitised era. Original forms are often required in many cases, as are wet signatures, original certified copies of documentation and payments by cheque. We continue to see significant exposures emerge due to relatively simple administrative errors or failings, which in our view is not in line with the spirit of the legislative relief.

We believe there is a significant opportunity for the government to modernise, simplify and digitise a lot of the administrative processes, particularly given many of these procedures give rise to some sort of exemption or relief intended to facilitate market activity.

Incentives and concessions to further facilitate the financial services industry

There continues to be industry discussion on further incentives or concessions that could be put to the Government to further facilitate the development of the banking sector. With the key market facilitation role that banks have, an increase in the stamp duty rate may have a negative impact on banks' ability to provide those facilitation services. Given that the Financial Secretary has indicated strong government support for the financial services industry, we believe there is a significant opportunity to engage in discussions with the Government around where reliefs and exemptions might be appropriate, particularly where this is facilitating capital markets activity in Hong Kong. Transforming these discussions into meaningful actions will help banks and the broader financial services industry further develop and grow.

Regulation

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With Basel III reforms on the horizon, banks should accelerate their preparation for implementation

With the significant Basel III reforms looming on the horizon, banks in Hong Kong need to accelerate their preparatory work to ensure they are ready for implementation.

Following the Global Financial Crisis, the Basel Committee on Banking Supervision (BCBS) has remained focused on strengthening banking capital requirements. In December 2017, the BCBS published a revised set of minimum standards for the capital treatment of credit risk, operational risk and credit valuation adjustment risk, and for a new output floor to limit the extent to which banks will be able to use internal models for credit and market risk to drive down capital requirements.

Part of the overall reforms involve changes to the Fundamental Review of the Trading Book (FRTB), which is a comprehensive suite of capital rules that will be applied to banks' wholesale trading activities. The BCBS issued its final 'minimum standards for market risk capital requirements' in January 2019, which propose material changes to the way in which banks determine the capital required to support their trading activities.

The Basel III revised capital standards were due to be implemented in January 2022, but the onset of the Covid-19 pandemic has caused this timeline to be deferred both locally by the Hong Kong Monetary Authority (HKMA) and internationally by other major regulators. On 10 June, the HKMA announced that it would further extend the timeline to July 2023 in order to provide the industry with additional time to prepare for implementation.

Addressing challenges

While the timeline has been deferred, banks should not ease off on their preparations for the new rules. While it is encouraging to see that most banks have started their preparatory work for the implementation, there are a number of key considerations that need to be addressed in order for them to successfully navigate this change.

First and foremost is to ensure compliance in a complex regulatory environment across multiple jurisdictions. The new rules themselves are very intricate, and international banks with a large global footprint in particular may find regional implementation challenging.

> *Banks need to ensure that their data and models are robust as the new rules will require a wider range of data and more granularity. Enhancing data and modelling will help banks ensure that their capital requirement calculations – for Capital Adequacy Ratios and risk-weighted assets for example – are accurate and credible.*

Second, banks need to ensure that their data and models are robust as the new rules will require a wider range of data with more granularity. Enhancing data and modelling will help banks ensure that their capital requirement calculations – for Capital Adequacy Ratios and risk-weighted assets for example – are accurate and credible.

In addition, banks need to carefully consider their implementation strategy and ensure that they engage all departments across the organisation, not just risk management, and include the business function too. Banks should also focus on organisation-wide training and use any quantitative analysis that comes out of this overall exercise to update their strategy to make a stronger business impact.

Key implications and actions for banks

The Basel III reforms are expected to lead to changes in banks' business and operating models. For example, the new FRTB framework is more risk sensitive and will have a significant impact on areas such as FX trading, so banks need to consider how best to structure their FX portfolios and optimise their trading desk structures in order to save capital. Banks should also enhance their data capabilities as these new desk-level calculations will require more granular data.

The Basel III reforms will also have an impact on credit risk. For example, the new rules split out real estate as a separate category and introduce a new metric to link risk weighting to Loan-to-Value ratio (LTV). There will be lower capital requirements for banks that have a lower LTV, and therefore a higher quality, for mortgages. This will have an impact on the business in terms of credit approvals and the types of lending that banks want to focus on. If banks shift their lending portfolio to better quality mortgages, they can potentially help the banks to save capital under the new rules.

There are a number of actions that banks can take to address key challenges and set themselves up for a successful implementation. First, it is essential to focus on comprehensive programme management and bank-wide training to drive the initiative. The Basel III reforms will have a significant impact across the organisation, and robust programme management will enable banks to better manage external parties and system vendors, and improve coordination among the internal departments across different entities and jurisdictions.

In order to drive successful implementation across jurisdictions, international banks may also seek to work with advisors and third parties that have an established global network and therefore more expertise and knowledge of the Basel III rules across regions. Subject matter expertise around data modelling for the various types of credit, operational and market risk can also be valuable for banks to fully understand the changes and impact from the reforms.

From a data and systems perspective, banks will need to update or build new systems to ensure that they are able to collect, analyse and report the necessary data on borrowers and other counterparties. For credit and market risk, banks using internal models will also have to calculate their risk-weighted exposures using the new standardised approaches in order to apply the output floor.

Regulation

Furthermore, banks moving from the current to the revised standardised approach for credit risk will face higher capital requirements for some types of lending, including buy-to-let and similar exposures to property where repayment relies on income from the property. Within the new standardised approach for credit risk, banks should conduct due diligence to review the accuracy of external credit ratings and to assess whether borrowers are materially dependent on the cash flows generated by a property securing an exposure.

In general, the implementation of the Basel III reforms will change banks' risk measurement and risk models significantly, and therefore banks with legacy IT, data and reporting systems will need to make necessary investments to upgrade their IT infrastructure and systems.

Setting milestones

Perhaps most importantly, with the implementation date of the revised standards deferred until July 2023, banks should still actively seek to work toward key milestones leading up to implementation. In our view, by the first quarter of 2022, banks should be able to produce preliminary results according to the new rules, which means that they need to complete their system implementation in the next six to nine months. Achieving this milestone by the first quarter of 2022 would give banks the rest of the year to prepare for validation and reporting.

We firmly believe that the banks that accelerate their preparatory work for the Basel III reforms in the months ahead and address the key challenges around ensuring compliance, enhancing data and models, and developing a firm-wide strategy will be best placed for implementation success.

> *"The Basel III reforms will have a significant impact across the organisation, and robust programme management will enable banks to better manage external parties and system vendors, and improve coordination among the internal departments across different entities and jurisdictions."*

Financial highlights

Performance rankings:

- Licensed banks
- Virtual banks
- Restricted licence banks
- Deposit-taking companies
- Foreign bank branches

Performance rankings

Licensed banks

Ranking	Total assets	HK$ million	Ranking	Net profit after tax	HK$ million	Ranking	Cost/income ratio	
1.	Hongkong And Shanghai Banking Corporation Limited (The)	9,416,403	1.	Hongkong And Shanghai Banking Corporation Limited (The)	75,691	1.	Industrial And Commercial Bank of China (Asia) Limited	28.0%
2.	Bank of China (Hong Kong) Limited	3,144,530	2.	Bank of China (Hong Kong) Limited	27,533	2.	Bank of China (Hong Kong) Limited	29.9%
3.	Standard Chartered Bank (Hong Kong) Limited	2,456,789	3.	Hang Seng Bank, Limited	16,670	3.	Shanghai Commercial Bank Limited	32.0%
4.	Hang Seng Bank, Limited	1,759,787	4.	Standard Chartered Bank (Hong Kong) Limited	10,204	4.	Nanyang Commercial Bank, Limited	36.3%
5.	Industrial And Commercial Bank of China (Asia) Limited	931,093	5.	Industrial And Commercial Bank of China (Asia) Limited	5,525	5.	Hang Seng Bank, Limited	36.6%
6.	Bank of East Asia, Limited (The)	884,420	6.	DBS Bank (Hong Kong) Limited	4,325	6.	Chiyu Banking Corporation Limited	40.2%
7.	Nanyang Commercial Bank, Limited	505,698	7.	Nanyang Commercial Bank, Limited	3,815	7.	China Construction Bank (Asia) Corporation Limited	40.6%
8.	DBS Bank (Hong Kong) Limited	484,159	8.	China Construction Bank (Asia) Corporation Limited	3,749	8.	Bank of Communications (Hong Kong) Limited	41.0%
9.	China Construction Bank (Asia) Corporation Limited	474,506	9.	Bank of East Asia, Limited (The)	3,685	9.	CMB Wing Lung Bank Limited	42.2%
10.	China CITIC Bank International Limited	392,899	10.	OCBC Wing Hang Bank Limited	2,877	10.	Chong Hing Bank Limited	43.6%

Restricted licence banks

Ranking	Total assets	HK$ million	Ranking	Net profit after tax	HK$ million	Ranking	Cost/income ratio	
1.	Bank of Shanghai (Hong Kong) Limited	38,745	1.	J.P. Morgan Securities (Asia Pacific) Limited	2,244	1.	Kasikornbank Public Company Limited	19.2%
2.	Kasikornbank Public Company Limited	19,635	2.	Citicorp International Limited	2,161	2.	Bank of Shanghai (Hong Kong) Limited	25.7%
3.	KDB Asia Limited	19,196	3.	Bank of Shanghai (Hong Kong) Limited	228	3.	Siam Commercial Bank Public Company Limited (The)	27.1%
4.	Siam Commercial Bank Public Company Limited (The)	15,708	4.	KDB Asia Limited	83	4.	KDB Asia Limited	33.0%
5.	J.P. Morgan Securities (Asia Pacific) Limited	14,659	5.	Kasikornbank Public Company Limited	70	5.	Scotiabank (Hong Kong) Limited	42.7%
6.	Bank of China International Limited	9,324	6.	Scotiabank (Hong Kong) Limited	51	6.	Citicorp International Limited	44.4%
7.	Citicorp International Limited	8,089	7.	Bank of China International Limited	51	7.	Banc of America Securities Asia Limited	48.3%
8.	ORIX Asia Limited	4,812	8.	Banc of America Securities Asia Limited	36	8.	Allied Banking Corporation (Hong Kong) Limited	60.3%
9.	Banc of America Securities Asia Limited	4,354	9.	Siam Commercial Bank Public Company Limited (The)	32	9.	ORIX Asia Limited	65.8%
10.	Scotiabank (Hong Kong) Limited	2,880	10.	Allied Banking Corporation (Hong Kong) Limited	21	10.	J.P. Morgan Securities (Asia Pacific) Limited	69.3%

Deposit-taking companies

Ranking	Total assets	HK$ million	Ranking	Net profit after tax	HK$ million	Ranking	Cost/income ratio	
1.	Public Finance Limited	7,025	1.	Public Finance Limited	220	1.	BCOM Finance (Hong Kong) Limited	12.5%
2.	Kexim Asia Limited	3,876	2.	Woori Global Markets Asia Limited	29	2.	Kexim Asia Limited	42.6%
3.	Woori Global Markets Asia Limited	3,376	3.	Kexim Asia Limited	23	3.	Woori Global Markets Asia Limited	45.7%
4.	KEB Hana Global Finance Limited	1,255	4.	KEB Hana Global Finance Limited	14	4.	Public Finance Limited	50.1%
5.	BPI International Finance Limited	414	5.	BCOM Finance (Hong Kong) Limited	6	5.	KEB Hana Global Finance Limited	64.3%
6.	Vietnam Finance Company Limited	386	6.	Commonwealth Finance Corporation Limited	2	6.	Corporate Finance (D.T.C.) Limited	80.0%
7.	Commonwealth Finance Corporation Limited	305	7.	Corporate Finance (D.T.C.) Limited	1	7.	Commonwealth Finance Corporation Limited	85.7%
8.	Corporate Finance (D.T.C.) Limited	297	8.	Chau's Brothers Finance Company Limited	-	8.	Chau's Brothers Finance Company Limited	100.0%
9.	BCOM Finance (Hong Kong) Limited	268	9.	Chong Hing Finance Limited	-	9.	BPI International Finance Limited	130.3%
10.	Fubon Credit (Hong Kong) Limited	96	10.	Vietnam Finance Company Limited	(2)	10.	Vietnam Finance Company Limited	150.0%

Foreign bank branches

Ranking	Total assets	HK$ million	Ranking	Net profit after tax	HK$ million	Ranking	Cost/income ratio	
1.	Agricultural Bank of China Limited	571,636	1.	UBS AG	7,846	1.	Agricultural Bank of China Limited	12.4%
2.	Citibank, N.A.	549,842	2.	Bank of Communications Co., Ltd.	3,151	2.	KEB Hana Bank	14.0%
3.	Mizuho Bank, Ltd.	549,150	3.	China Development Bank	2,498	3.	Bank of China Limited	14.1%
4.	Bank of Communications Co., Ltd.	516,740	4.	Agricultural Bank of China Limited	2,338	4.	China Development Bank	15.0%
5.	MUFG Bank, Ltd.	425,799	5.	Citibank, N.A.	1,892	5.	Indian Overseas Bank	15.2%
6.	BNP Paribas	362,490	6.	United Overseas Bank Ltd.	1,437	6.	Shinhan Bank	16.5%
7.	China Development Bank	360,623	7.	China Minsheng Banking Corp., Ltd.	1,419	7.	Taiwan Cooperative Bank, Ltd.	16.7%
8.	DBS Bank Ltd.	360,413	8.	China Everbright Bank Co., Ltd.	1,366	8.	Punjab National Bank	17.7%
9.	Sumitomo Mitsui Banking Corporation	308,982	9.	China Merchants Bank Co., Ltd.	1,317	9.	First Commercial Bank, Ltd.	17.9%
10.	UBS AG	256,448	10.	Sumitomo Mitsui Banking Corporation	1,142	10.	Woori Bank	18.0%

Source: Extracted from individual banks' financial and public statements
N/A refers to not available

Licensed banks

Ranking	Return on equity		Ranking	Growth in assets		Ranking	Growth in net profit after tax	
1.	Morgan Stanley Bank Asia Limited	13.7%	1.	Morgan Stanley Bank Asia Limited	69.7%	1.	Morgan Stanley Bank Asia Limited	55.2%
2.	DBS Bank (Hong Kong) Limited	10.7%	2.	Bank of Communications (Hong Kong) Limited	64.2%	2.	OCBC WING HANG BANK LIMITED	15.9%
3.	Citibank (Hong Kong) Limited	9.5%	3.	Citibank (Hong Kong) Limited	26.7%	3.	Bank of East Asia, Limited (The)	10.5%
4.	Bank of China (Hong Kong) Limited	9.5%	4.	Standard Chartered Bank (Hong Kong) Limited	16.0%	4.	China Construction Bank (Asia) Corporation Limited	1.8%
5.	Hang Seng Bank, Limited	9.2%	5.	Wing Lung Bank Limited	11.2%	5.	Nanyang Commercial Bank, Limited	-3.4%
6.	Shanghai Commercial Bank Limited	8.7%	6.	Chong Hing Bank Limited	9.5%	6.	Public Bank (Hong Kong) Limited	-5.2%
7.	Hongkong And Shanghai Banking Corporation Limited (The)	8.5%	7.	Bank of China (Hong Kong) Limited	9.4%	7.	Shanghai Commercial Bank Limited	-9.3%
8.	Public Bank (Hong Kong) Limited	6.8%	8.	Chiyu Banking Corporation Limited	9.1%	8.	Bank of China (Hong Kong) Limited	-17%
9.	OCBC Wing Hang Bank Limited	6.4%	9.	China CITIC Bank International Limited	8.8%	9.	DBS Bank (Hong Kong) Limited	-19.3%
10.	Nanyang Commercial Bank, Limited	6.3%	10.	Hongkong And Shanghai Banking Corporation Limited (The)	8.7%	10.	Citibank (Hong Kong) Limited	-21.0%

Restricted licence banks

Ranking	Return on equity		Ranking	Growth in assets		Ranking	Growth in net profit after tax	
1.	Citicorp International Limited	31.0%	1.	Kasikornbank Public Company Limited	26.1%	1.	Banc of America Securities Asia Limited	300.0%
2.	J.P. Morgan Securities (Asia Pacific) Limited	26.0%	2.	J.P. Morgan Securities (Asia Pacific) Limited	22.9%	2.	Kasikornbank Public Company Limited	141.4%
3.	Bank of Shanghai (Hong Kong) Limited	4.4%	3.	Bank of Shanghai (Hong Kong) Limited	17.6%	3.	Bank of China International Limited	64.5%
4.	Allied Banking Corporation (Hong Kong) Limited	3.9%	4.	Habib Bank Zurich (Hong Kong) Limited	6.8%	4.	Citicorp International Limited	6.3%
5.	Bank of China International Limited	3.1%	5.	KDB Asia Limited	2.8%	5.	Goldman Sachs Asia Bank Limited	-23.1%
6.	Kasikornbank Public Company Limited	2.8%	6.	Goldman Sachs Asia Bank Limited	2.2%	6.	Allied Banking Corporation (Hong Kong) Limited	-25.0%
7.	KDB Asia Limited	2.5%	7.	Citicorp International Limited	0.1%	7.	Bank of Shanghai (Hong Kong) Limited	-26.0%
8.	Habib Bank Zurich (Hong Kong) Limited	2.0%	8.	Banc of America Securities Asia Limited	-3.0%	8.	Habib Bank Zurich (Hong Kong) Limited	-31.3%
9.	Scotiabank (Hong Kong) Limited	1.2%	9.	Bank of China International Limited	-3.7%	9.	ORIX Asia Limited	-31.8%
10.	Goldman Sachs Asia Bank Limited	1.1%	10.	Siam Commercial Bank Public Company Limited (The)	-4.8%	10.	KDB Asia Limited	-39.9%

Deposit-taking companies

Ranking	Return on equity		Ranking	Growth in assets		Ranking	Growth in net profit after tax	
1.	Public Finance Limited	14.3%	1.	Vietnam Finance Company Limited	51.4%	1.	BPI International Finance Limited	52.4%
2.	Woori Global Markets Asia Limited	3.2%	2.	Kexim Asia Limited	15.4%	2.	Kexim Asia Limited	15.0%
3.	KEB Hana Global Finance Limited	2.7%	3.	BPI International Finance Limited	6.7%	3.	Public Finance Limited	2.8%
4.	Kexim Asia Limited	2.6%	4.	BCOM Finance (Hong Kong) Limited	2.7%	4.	BCOM Finance (Hong Kong) Limited	-14.3%
5.	BCOM Finance (Hong Kong) Limited	2.3%	5.	Chong Hing Finance Limited	2.2%	5.	Commonwealth Finance Corporation Limited	-33.3%
6.	Commonwealth Finance Corporation Limited	1.8%	6.	Chau's Brothers Finance Company Limited	0.0%	6.	Woori Global Markets Asia Limited	-39.6%
7.	Corporate Finance (D.T.C.) Limited	1.0%	7.	Fubon Credit (Hong Kong) Limited	-1.0%	7.	Corporate Finance (D.T.C.) Limited	-50.0%
8.	Chau's Brothers Finance Company Limited	0.0%	8.	Commonwealth Finance Corporation Limited	-4.1%	8.	KEB Hana Global Finance Limited	-65.9%
9.	Chong Hing Finance Limited	0.0%	9.	Public Finance Limited	-5.5%	9.	Chong Hing Finance Limited	-100.0%
10.	Fubon Credit (Hong Kong) Limited	-1.1%	10.	Corporate Finance (D.T.C.) Limited	-6.6%	10.	Vietnam Finance Company Limited	-166.7%

Foreign bank branches

Ranking	Growth in assets		Ranking	Growth in net profit after tax	
1.	Ping An Bank Co., Ltd.	510.3%	1.	State Street Bank And Trust Company	408.6%
2.	First Abu Dhabi Bank PJSC	95.5%	2.	Bank of Nova Scotia (The)	285.4%
3.	National Australia Bank Limited	93.4%	3.	Canadian Imperial Bank of Commerce	253.8%
4.	Bank of Montreal	86.1%	4.	Bangkok Bank Public Company Limited	213.3%
5.	HDFC Bank Limited	64.1%	5.	Woori Bank	145.2%
6.	JPMorgan Chase Bank, National Association	40.2%	6.	Bank of Montreal	144.4%
7.	Pictet & Cie (Europe) S.A.	39.4%	7.	UniCredit Bank AG	132.5%
8.	Kookmin Bank	39.3%	8.	UBS AG	123.7%
9.	Credit Agricole Corporate And Investment Bank	35.4%	9.	Bank of Singapore Limited	112.4%
10.	Banco Bilbao Vizcaya Argentaria S.A.	32.9%	10.	LGT Bank AG	61.9%

Virtual banks

Ranking	Total deposits from customers	HK$ million
1.	ZA Bank Limited	6,037
2.	Mox Bank Limited	5,194
3.	Airstar Bank Limited	1,578
4.	Welab Bank Limited	1,105
5.	Ant Bank (Hong Kong) Limited	734
6.	Ping An Oneconnect Bank (Hong Kong) Limited	482
7.	Fusion Bank Limited	325
8.	Livi VB Limited	320

Source: Extracted from individual banks' financial and public statements

Licensed banks - Financial highlights

HK$ million		Year ended	Income statement: Net interest income	Non-interest income	Operating expenses	Operating profit before impairment charges	Change in expected credit loss against customer advances	Other items
1	Bank of China (Hong Kong) Limited	31-Dec-20	31,298	21,438	15,775	36,961	2,489	(1,844)
2	Bank of Communications (Hong Kong) Limited	31-Dec-20	2,278	1,484	1,544	2,218	261	(209)
3	Bank of East Asia, Limited (The)	31-Dec-20	11,550	5,760	8,963	8,347	4,734	(67)
4	China CITIC Bank International Limited	31-Dec-20	5,186	2,170	3,662	3,694	2,480	92
5	China Construction Bank (Asia) Corporation Limited	31-Dec-20	5,391	2,858	3,351	4,898	418	40
6	Chiyu Banking Corporation Limited	31-Dec-20	1,712	1,074	1,120	1,666	256	(390)
7	Chong Hing Bank Limited	31-Dec-20	2,927	882	1,661	2,148	362	(29)
8	Citibank (Hong Kong) Limited	31-Dec-20	3,059	4,053	4,290	2,822	198	(15)
9	CMB Wing Lung Bank Limited	31-Dec-20	3,858	2,147	2,533	3,472	408	328
10	Dah Sing Bank, Limited	31-Dec-20	3,685	1,556	2,843	2,398	603	(3)
11	DBS Bank (Hong Kong) Limited	31-Dec-20	7,567	4,132	5,174	6,525	1,282	(98)
12	Fubon Bank (Hong Kong) Limited	31-Dec-20	1,183	347	951	579	403	(67)
13	Hang Seng Bank, Limited	31-Dec-20	26,906	9,162	13,205	22,863	2,738	(711)
14	Hongkong And Shanghai Banking Corporation Limited (The)	31-Dec-20	111,513	77,825	95,828	93,510	16,509	13,195
15	Industrial And Commercial Bank of China (Asia) Limited	31-Dec-20	9,836	3,276	3,677	9,435	2,684	(291)
16	Morgan Stanley Bank Asia Limited	31-Dec-20	331	3,286	2,407	1,210	-	-
17	Nanyang Commercial Bank, Limited	31-Dec-20	6,368	2,405	3,185	5,588	1,270	(100)
18	OCBC Wing Hang Bank Limited	31-Dec-20	4,762	1,813	3,033	3,542	174	65
19	Public Bank (Hong Kong) Limited	31-Dec-20	1,242	306	863	685	186	-
20	Shanghai Commercial Bank Limited	31-Dec-20	3,552	1,518	1,621	3,449	111	31
21	Standard Chartered Bank (Hong Kong) Limited	31-Dec-20	23,578	21,373	29,428	15,523	2,576	25
22	Tai Sang Bank Limited	31-Dec-20	11	14	25	-	-	(8)
23	Tai Yau Bank, Limited	31-Dec-20	18	-	17	1	-	-
	TOTAL[N1]	**2020**	**240,905**	**159,717**	**191,951**	**208,671**	**37,344**	**10,655**
	Total excluding HSBC[N2]	**2020**	**156,298**	**91,054**	**109,328**	**138,024**	**23,573**	**(3,251)**
	Total excluding BOCHK & HSBC[N2]	**2020**	**125,000**	**69,616**	**93,553**	**101,063**	**21,084**	**(1,407)**

* This is Liquidity Coverage Ratio.
\# This is Liquidity Maintenance Ratio.
N1 This does not include Hang Seng Bank, as it is already included in the results of The Hongkong and Shanghai Banking Corporation.
N2 This include Hang Seng Bank.
N3 ROA is calculated as net profit after tax divided by average total assets.
N4 ROE is calculated as net profit after tax divided by average total equity.

Source: Extracted from individual banks' financial and public statements

Financial highlights		Size and strength measures							
Profit before tax	Net profit after tax	Total assets	Risk-weighted assets ("RWA")	Gross advances to customers	Expected credit loss allowance against customer advances	Total deposits from customers	Total equity	Capital adequacy ratio	Liquidity ratio
32,628	27,533	3,144,530	1,220,000	1,507,082	9,172	2,190,322	296,558	22.1%	132.7%*
1,748	1,450	372,964	227,729	138,089	574	245,750	47,117	21.8%	163.1%*
3,606	3,685	884,420	494,542	525,725	4,862	589,202	113,796	21.9%	183.8%*
1,306	1,156	392,899	299,317	220,096	2,441	309,877	47,568	17.3%	217%*
4,520	3,749	474,506	367,423	284,413	2,949	369,421	77,325	21.4%	163.6%*
1,020	843	163,514	91,305	79,108	768	122,573	17,894	19.2%	250.2%*
1,757	1,480	232,900	175,702	142,382	879	183,228	27,934	16.8%	46.0%#
2,609	2,212	295,079	94,730	101,017	358	215,543	23,649	25.2%	51.4%#
3,392	2,872	380,027	250,653	194,335	1,252	270,122	49,709	18.7%	172.5%*
1,792	1,475	248,145	165,714	141,370	1,260	191,242	29,257	17.6%	45.8%#
5,145	4,325	484,159	249,312	197,624	3,572	404,801	41,810	18.2%	168.2%*
109	75	112,324	72,695	56,506	677	76,538	14,727	18.9%	66.8%#
19,414	16,670	1,759,787	705,528	949,954	5,180	1,209,472	183,195	20.0%	207.8%*
90,196	75,691	9,416,403	2,956,993	3,697,568	28,887	5,911,396	911,531	20.8%	172.1%*
6,460	5,525	931,093	661,496	469,999	7,680	522,484	137,767	21.1%	207.4%*
1,210	1,021	61,982	15,305	26,661	-	52,775	7,941	51.0%	64.0%#
4,218	3,815	505,698	341,754	280,113	3,028	351,630	63,028	19.3%	149.7%*
3,433	2,877	312,171	218,812	192,197	565	217,414	46,210	19.4%	38.8%#
499	420	41,799	27,129	25,837	180	34,205	6,344	22.1%	53.7%#
3,369	2,742	226,732	177,770	101,739	490	177,797	32,495	20.1%	56.5%#
12,841	10,204	2,456,789	924,779	1,097,207	5,551	1,736,729	179,999	17.8%	147.0%*
(8)	(12)	1,022	523	164	-	270	713	103.5%	92.3%#
1	1	2,189	410	1	-	1,374	812	197.9%	102.8%#
181,851	**153,139**	**21,141,345**	**9,034,093**	**9,467,809**	**75,148**	**14,174,693**	**2,174,184**	**-**	**-**
111,069	**94,118**	**13,484,729**	**6,782,628**	**6,720,195**	**51,441**	**9,472,769**	**1,445,848**	**-**	**-**
78,441	**66,585**	**10,340,199**	**5,562,628**	**5,213,113**	**42,269**	**7,282,447**	**1,149,290**	**-**	**-**

	HK$ million	Year ended	Key ratios					
			Performance measures					
			Net customer loan/deposit ratio	Net interest income/ average total assets	Non-interest income/total operating income	Cost/ income ratio	ROA[N3]	ROE[N4]
1	Bank of China (Hong Kong) Limited	31-Dec-20	68.4%	1.0%	40.7%	29.9%	0.9%	9.5%
2	Bank of Communications (Hong Kong) Limited	31-Dec-20	56.0%	0.8%	39.4%	41.0%	0.5%	4.3%
3	Bank of East Asia, Limited (The)	31-Dec-20	86.5%	1.3%	33.3%	51.8%	0.4%	3.3%
4	China CITIC Bank International Limited	31-Dec-20	70.2%	1.4%	29.5%	49.8%	0.3%	2.5%
5	China Construction Bank (Asia) Corporation Limited	31-Dec-20	76.2%	1.1%	34.6%	40.6%	0.8%	5.1%
6	Chiyu Banking Corporation Limited	31-Dec-20	63.9%	1.1%	38.5%	40.2%	0.5%	5.3%
7	Chong Hing Bank Limited	31-Dec-20	77.2%	1.3%	23.2%	43.6%	0.7%	5.6%
8	Citibank (Hong Kong) Limited	31-Dec-20	46.7%	1.2%	57.0%	60.3%	0.8%	9.5%
9	CMB Wing Lung Bank Limited	31-Dec-20	71.5%	1.1%	35.8%	42.2%	0.8%	6.0%
10	Dah Sing Bank, Limited	31-Dec-20	73.3%	1.5%	29.7%	54.2%	0.6%	5.1%
11	DBS Bank (Hong Kong) Limited	31-Dec-20	47.9%	1.6%	35.3%	44.2%	0.9%	10.7%
12	Fubon Bank (Hong Kong) Limited	31-Dec-20	72.9%	1.1%	22.7%	62.2%	0.1%	0.5%
13	Hang Seng Bank, Limited	31-Dec-20	78.1%	1.6%	25.4%	36.6%	1.0%	9.2%
14	Hongkong And Shanghai Banking Corporation Limited (The)	31-Dec-20	62.1%	1.2%	41.1%	50.6%	0.8%	8.5%
15	Industrial And Commercial Bank of China (Asia) Limited	31-Dec-20	88.5%	1.0%	25.0%	28.0%	0.6%	4.1%
16	Morgan Stanley Bank Asia Limited	31-Dec-20	50.5%	0.7%	90.8%	66.5%	2.1%	13.7%
17	Nanyang Commercial Bank, Limited	31-Dec-20	78.8%	1.3%	27.4%	36.3%	0.8%	6.3%
18	OCBC Wing Hang Bank Limited	31-Dec-20	88.1%	1.6%	27.6%	46.1%	0.9%	6.4%
19	Public Bank (Hong Kong) Limited	31-Dec-20	75.0%	3.0%	19.8%	55.7%	1.0%	6.8%
20	Shanghai Commercial Bank Limited	31-Dec-20	56.9%	1.6%	29.9%	32.0%	1.2%	8.7%
21	Standard Chartered Bank (Hong Kong) Limited	31-Dec-20	62.9%	1.0%	47.5%	65.5%	0.4%	5.9%
22	Tai Sang Bank Limited	31-Dec-20	60.7%	0.9%	56.0%	100.0%	-0.9%	-1.7%
23	Tai Yau Bank, Limited	31-Dec-20	0.1%	0.8%	0.0%	94.4%	0.0%	0.1%
	TOTAL[N1]	**2020**	**66.3%**	**1.1%**	**39.9%**	**47.9%**	**0.7%**	**7.0%**
	Total excluding HSBC[N2]	**2020**	**70.4%**	**1.2%**	**36.8%**	**44.2%**	**0.7%**	**6.5%**
	Total excluding BOCHK & HSBC[N2]	**2020**	**71.0%**	**1.2%**	**35.8%**	**48.1%**	**0.6%**	**5.8%**

* This is Liquidity Coverage Ratio.
\# This is Liquidity Maintenance Ratio.
N1 This does not include Hang Seng Bank, as it is already included in the results of The Hongkong and Shanghai Banking Corporation.
N2 This include Hang Seng Bank.
N3 ROA is calculated as net profit after tax divided by average total assets.
N4 ROE is calculated as net profit after tax divided by average total equity.

Source: Extracted from individual banks' financial and public statements

Loan asset quality							
Impaired advances (stage 3)					Advances (stage 2)		
Gross impaired advances	Gross impaired advances/ Advances to customers	Stage 3 expected credit loss allowance made against impaired advances	Stage 3 expected credit loss allowance as a percentage of gross impaired advances	Collateral for impaired advances	Gross advances in Stage 2	Expected credit loss allowance made against Stage 2 advances	Stage 2 expected credit loss allowances as a percentage of gross stage 2 advances
3,994	0.3%	2,652	66.4%	3,046	23,378	1,115	4.8%
106	0.1%	44	41.5%	45	2,403	149	6.2%
6,465	1.3%	2,976	46.0%	4,801	25,139	1,038	4.1%
3,631	1.6%	1,274	35.1%	2,799	10,496	578	5.5%
3,283	1.2%	1,172	35.7%	2,070	21,859	714	3.3%
280	0.4%	279	99.6%	37	876	8	0.9%
922	0.6%	342	37.1%	342	4,001	109	2.7%
92	0.1%	40	43.5%	105	196	141	71.9%
986	0.5%	771	78.2%	93	17,240	138	0.8%
1,574	1.1%	557	35.4%	787	11,002	208	1.9%
2,996	1.5%	1,341	44.8%	1,280	20,553	974	4.7%
483	0.9%	395	81.8%	3	2,061	53	2.6%
5,723	0.6%	2,044	35.7%	2,210	130,084	1,821	1.4%
35,752	1.0%	17,694	49.5%	12,683	510,040	6,438	1.3%
4,422	0.91%	2,900	65.6%	11,925	32,269	577	1.8%
-	0.0%	-	0.0%	-	-	-	0.0%
2,393	0.9%	1,702	71.1%	793	2,973	97	3.3%
833	0.4%	134	16.1%	658	22,444	150	0.7%
220	0.9%	60	27.3%	202	268	24	9.0%
168	0.2%	32	19.0%	393	9,273	119	1.3%
7,327	0.7%	3,050	41.6%	3,189	54,699	924	1.7%
-	0.0%	-	0.0%	-	-	-	0.0%
-	0.0%	-	0.0%	-	-	-	0.0%
75,927	**0.8%**	**37,415**	**49.3%**	**45,146**	**771,170**	**13,554**	**1.8%**
45,898	**0.7%**	**21,765**	**47.4%**	**32,463**	**391,214**	**8,937**	**2.3%**
41,904	**0.8%**	**19,113**	**45.6%**	**29,417**	**367,836**	**7,822**	**2.1%**

Restricted licence banks - Financial highlights

	HK$ million	Year ended	Income statement					
			Net interest income	Non-interest income	Operating expenses	Operating profit before impairment charges	Change in expected credit loss against customer advances	Other items
1	Allied Banking Corporation (Hong Kong) Limited	31-Dec-20	48	10	35	23	(1)	-
2	Banc of America Securities Asia Limited	31-Dec-20	3	86	43	46	-	-
3	Bank of China International Limited	31-Dec-20	111	196	246	61	-	-
4	Bank of Shanghai (Hong Kong) Limited	31-Dec-20	667	310	251	726	369	(85)
5	Citicorp International Limited	31-Dec-20	54	4,645	2,086	2,613	-	-
6	Goldman Sachs Asia Bank Limited	31-Dec-20	10	40	38	12	-	-
7	Habib Bank Zurich (Hong Kong) Limited	31-Dec-20	56	44	85	15	2	-
8	J.P. Morgan Securities (Asia Pacific) Limited	31-Dec-20	45	8,797	6,131	2,711	-	-
9	Kasikornbank Public Company Limited	31-Dec-20	72	32	20	84	1	-
10	KDB Asia Limited	31-Dec-20	218	43	86	175	82	(1)
11	Nippon Wealth Limited	31-Dec-20	1	18	66	(47)	-	-
12	ORIX Asia Limited	31-Mar-20	144	75	144	75	59	-
13	Scotiabank (Hong Kong) Limited	31-Oct-20	93	10	44	59	(2)	-
14	Siam Commercial Bank Public Company Limited (The)	31-Dec-20	32	16	13	35	-	-
	TOTAL	**2020**	**1,554**	**14,322**	**9,288**	**6,588**	**510**	**(86)**

Source: Extracted from individual banks' financial and public statements
Note that all are Liquidity Maintenance Ratio

Financial highlights								
		Size and strength measures						
Profit before tax	Net profit after tax	Total assets	Gross advances to customers	Expected credit loss allowance against customer advances	Total deposits from customers	Total equity	Capital adequacy ratio	Liquidity ratio#
24	21	1,620	1,096	-	1,022	554	35.8%	89.8%
46	36	4,354	-	-	-	4,189	674.5%	13,958.8%
61	51	9,324	4,893	1	7,537	1,662	39.9%	49.7%
272	228	38,745	20,598	478	13,819	5,275	18.7%	77.2%
2,613	2,161	8,089	-	-	-	7,061	69.5%	160.0%
12	10	1,091	-	-	8	913	214.7%	160.0%
13	11	2,703	1,708	16	1,380	553	28.4%	75.5%
2,711	2,244	14,659	-	-	-	9,734	50.1%	367.8%
83	70	19,635	1,213	12	10	4,428	18.8%	74.0%
92	83	19,196	14,085	117	335	3,359	19.3%	71.9%
(47)	(47)	133	11	-	-	109	130%	160.0%
16	15	4,812	4,449	108	750	2,158	45.3%	128.0%
61	51	2,880	-	-	-	2,876	327.6%	236.9%
35	32	15,708	1,626	4	1,095	-	18.2%	67.5%
5,992	**4,966**	**142,949**	**49,679**	**736**	**25,956**	**42,871**	**-**	**-**

	HK$ million	Year ended	Key ratios					
			Performance measures					
			Net customer loan/deposit ratio	Net interest income/ average total assets	Non-interest income/total operating income	Cost/ income ratio	ROA	ROE
1	Allied Banking Corporation (Hong Kong) Limited	31-Dec-20	107.2%	2.9%	17.2%	60.3%	1.3%	3.9%
2	Banc of America Securities Asia Limited	31-Dec-20	N/A	0.1%	96.6%	48.3%	0.8%	0.9%
3	Bank of China International Limited	31-Dec-20	64.9%	1.2%	63.8%	80.1%	0.5%	3.1%
4	Bank of Shanghai (Hong Kong) Limited	31-Dec-20	145.6%	1.9%	31.7%	25.7%	0.6%	4.4%
5	Citicorp International Limited	31-Dec-20	N/A	0.7%	98.9%	44.4%	26.7%	31.0%
6	Goldman Sachs Asia Bank Limited	31-Dec-20	0.0%	0.9%	80.0%	76.0%	0.9%	1.1%
7	Habib Bank Zurich (Hong Kong) Limited	31-Dec-20	122.6%	2.1%	44.0%	85.0%	0.4%	2.0%
8	J.P. Morgan Securities (Asia Pacific) Limited	31-Dec-20	0.0%	0.3%	99.5%	69.3%	16.9%	26.0%
9	Kasikornbank Public Company Limited	31-Dec-20	12,010.0%	0.4%	30.8%	19.2%	0.4%	2.8%
10	KDB Asia Limited	31-Dec-20	4,169.6%	1.2%	16.5%	33.0%	0.4%	2.5%
11	Nippon Wealth Limited	31-Dec-20	N/A	0.6%	94.7%	347.4%	-28.2%	-41.2%
12	ORIX Asia Limited	31-Mar-20	578.8%	2.7%	34.2%	65.8%	0.3%	0.7%
13	Scotiabank (Hong Kong) Limited	31-Oct-20	N/A	1.0%	9.7%	42.7%	0.5%	1.2%
14	Siam Commercial Bank Public Company Limited (The)	31-Dec-20	148.1%	0.2%	33.3%	27.1%	0.2%	N/A
	TOTAL	**2020**	**188.6%**	**1.1%**	**90.2%**	**58.5%**	**3.5%**	**11.6%**

Source: Extracted from individual banks' financial and public statements

	Loan asset quality							
	Impaired advances / Stage 3 advances					Advances (stage 2)		
	Gross impaired advances	Gross impaired advances/ Advances to customers	Stage 3 expected credit loss allowance made against impaired advances	Stage 3 expected credit loss allowance as a percentage of gross impaired advances	Collateral for impaired advances	Gross advances in Stage 2	Expected credit loss allowance made against Stage 2 advances	Stage 2 expected credit loss allowances as a percentage of gross stage 2 advances
	26	2.4%	-	0.0%	40	1	-	0%
	-	0.0%	-	0.0%	-	-	-	0.0%
	1	0.0%	1	100.0%	-	-	-	0.0%
	504	2.4%	249	49.4%	-	-	-	0.0%
	-	0.0%	-	0.0%	-	-	-	0.0%
	-	0.0%	-	0.0%	-	-	-	0.0%
	11	0.6%	3	27.3%	7	50	9	18.0%
	-	0.0%	-	0.0%	-	-	-	0.0%
	-	0.0%	-	0.0%	-	-	-	0.0%
	77	0.5%	77	100.0%	-	97	19	19.6%
	-	0.0%	-	0.0%	-	-	-	0.0%
	96	2.2%	70	72.9%	27	135	19	14.1%
	-	0.0%	-	0.0%	-	-	-	0.0%
	-	0.0%	-	0.0%	-	-	-	0.0%
	715	**1.4%**	**400**	**55.9%**	**34**	**282**	**47**	**16.7%**

Deposit-taking companies – Financial highlights

	HK$ million	Year ended	Income statement					
			Net interest income	Non-interest income	Operating expenses	Operating profit before impairment charges	Change in expected credit loss against customer advances	Other items
1	BCOM Finance (Hong Kong) Limited	31-Dec-20	1	7	1	7	-	-
2	BPI International Finance Limited	31-Dec-20	3	30	43	(10)	-	-
3	Chau's Brothers Finance Company Limited	31-Dec-20	4	1	5	-	-	-
4	Chong Hing Finance Limited	31-Dec-20	-	-	-	-	-	-
5	Commonwealth Finance Corporation Limited	31-Dec-20	10	4	12	2	-	-
6	Corporate Finance (D.T.C.) Limited	31-Dec-20	5	-	4	1	-	-
7	Fubon Credit (Hong Kong) Limited	31-Dec-20	-	-	1	(1)	-	-
8	KEB Hana Global Finance Limited	31-Dec-20	22	20	27	15	(1)	-
9	Kexim Asia Limited	31-Dec-20	40	7	20	27	-	-
10	Public Finance Limited	31-Dec-20	698	162	431	429	173	-
11	Vietnam Finance Company Limited	31-Dec-20	5	(1)	6	(2)	-	-
12	Woori Global Markets Asia Limited	31-Dec-20	47	23	32	38	3	-
	Total	**2020**	**835**	**253**	**582**	**506**	**175**	**-**

Source: Extracted from individual companies' financial and public statements
Note that all are Liquidity Maintenance Ratio

Financial highlights									
		Size and strength measures							
Profit before tax	Net profit after tax	Total assets	Risk-weighted assets ("RWA")	Gross advances to customers	Expected credit loss allowance against customer advances	Total deposits from customers	Total equity	Capital adequacy ratio	Liquidity ratio#
7	6	268	N/A	-	-	1	265	N/A	N/A
(10)	(10)	414	275	106	-	266	134	48.8%	475.7%
-	-	71	N/A	54	1	1	69	116.9%	160.6%
-	-	47	N/A	-	-	-	47	N/A	N/A
2	2	305	N/A	165	5	134	113	84.2%	77.8%
1	1	297	N/A	126	-	193	103	N/A	N/A
(1)	(1)	96	N/A	1	-	-	91	N/A	N/A
16	14	1,255	632	1,076	1	-	528	83.4%	41,341.4%
27	23	3,876	3,474	1,985	6	N/A	1,284	40.5%	161.9%
256	220	7,025	5,298	5,458	141	5,161	1,589	24.7%	66.4%
(2)	(2)	386	N/A	1	-	-	109	N/A	N/A
35	29	3,376	3,260	1,639	24	N/A	922	27.1%	133.7%
331	**282**	**17,416**	**12,939**	**10,611**	**178**	**5,756**	**5,254**	**-**	**-**

			Key ratios					
			Performance measures					
	HK$ million	Year ended	Net customer loan/deposit ratio	Net interest income/ average total assets	Non-interest income/ total operating income	Cost/ income ratio	ROA	ROE
1	BCOM Finance (Hong Kong) Limited	31-Dec-20	0.0%	0.4%	87.5%	12.5%	2.3%	2.3%
2	BPI International Finance Limited	31-Dec-20	39.8%	0.7%	90.9%	130.3%	-2.5%	-7.2%
3	Chau's Brothers Finance Company Limited	31-Dec-20	5,300.0%	5.6%	20.0%	100.0%	0.0%	0.0%
4	Chong Hing Finance Limited	31-Dec-20	N/A	0.0%	0.0%	0.0%	0.0%	0.0%
5	Commonwealth Finance Corporation Limited	31-Dec-20	119.4%	3.2%	28.6%	85.7%	0.6%	1.8%
6	Corporate Finance (D.T.C.) Limited	31-Dec-20	65.3%	1.6%	0.0%	80.0%	0.3%	1.0%
7	Fubon Credit (Hong Kong) Limited	31-Dec-20	N/A	0.0%	0.0%	N/A	-1.0%	-1.1%
8	KEB Hana Global Finance Limited	31-Dec-20	N/A	1.7%	47.6%	64.3%	1.1%	2.7%
9	Kexim Asia Limited	31-Dec-20	N/A	1.1%	14.9%	42.6%	0.6%	2.6%
10	Public Finance Limited	31-Dec-20	103.0%	9.7%	18.8%	50.1%	3.0%	14.3%
11	Vietnam Finance Company Limited	31-Dec-20	N/A	1.6%	-25.0%	150.0%	-0.6%	-1.8%
12	Woori Global Markets Asia Limited	31-Dec-20	N/A	1.2%	32.9%	45.7%	0.8%	3.2%
	Total	**2020**	**181.3%**	**4.8%**	**23.3%**	**53.5%**	**1.6%**	**5.4%**

Source: Extracted from individual companies' financial and public statements

	Loan asset quality							
	Impaired advances (stage 3)					Advances (stage 2)		
	Gross impaired advances	Gross impaired advances/ Advances to customers	Stage 3 expected credit loss allowance made against impaired advances	Stage 3 expected credit loss allowance as a percentage of gross impaired advances	Collateral for impaired advances	Gross advances in Stage 2	Expected credit loss allowance made against Stage 2 advances	Stage 2 expected credit loss allowances as a percentage of gross stage 2 advances
	-	N/A	-	0.0%	-	-	-	0.0%
	-	0.0%	-	0.0%	-	-	-	0.0%
	-	N/A	-	0.0%	-	-	-	0.0%
	-	N/A	-	0.0%	-	-	-	0.0%
	10	6.1%	3	30.0%	2	-	-	0.0%
	-	0.0%	-	0.0%	-	-	-	0.0%
	-	0.0%	-	0.0%	-	-	-	0.0%
	-	0.0%	-	0.0%	0	57	-	0.0%
	-	0.0%	-	0.0%	-	-	-	0.0%
	92	1.7%	41	44.6%	9	39	21	53.8%
	-	0.0%	-	0%	0	-	-	0%
	67	4.1%	20	29.9%	46	-	-	0%
	169	**1.6%**	**64**	**37.9%**	**11**	**96**	**21**	**21.9%**

Foreign bank branches - Financial highlights

	HK$ million	Year ended	Income statement				
			Net interest income	Non-interest income	Operating expenses	Operating profit before impairment charges	Change in expected credit loss against customer advances
1	ABN AMRO Bank N.V.	31-Dec-20	198	105	236	67	1,090
2	Agricultural Bank of China Limited	31-Dec-20	3,061	580	451	3,190	492
3	First Abu Dhabi Bank PJSC	31-Dec-20	147	180	147	180	607
4	Australia And New Zealand Banking Group Limited	30-Sep-20	590	761	1,053	298	67
5	Banco Bilbao Vizcaya Argentaria S.A.	31-Dec-20	324	196	172	348	48
6	Banco Santander, S.A.	31-Dec-20	229	430	618	41	31
7	Bangkok Bank Public Company Limited	31-Dec-20	380	113	156	337	132
8	Bank J. Safra Sarasin AG	31-Dec-20	106	294	432	(32)	-
9	Bank Julius Baer & Co. Ltd.	31-Dec-20	495	2,437	1,912	1,020	-
10	Bank of America, National Association	31-Dec-20	1,058	1,291	1,561	788	(171)
11	Bank of Baroda	31-Mar-20	(9)	39	15	15	212
12	Bank of China Limited	31-Dec-20	438	436	123	751	-
13	Bank of Communications Co., Ltd.	31-Dec-20	1,663	3,393	1,342	3,714	176
14	Bank of India	31-Mar-20	169	29	43	155	378
15	Bank of Montreal	31-Oct-20	162	324	444	42	(2)
16	Bank of New York Mellon (The)	31-Dec-20	(31)	738	600	107	-
17	Bank of Nova Scotia (The)	31-Oct-20	229	186	293	122	-
18	Bank of Singapore Limited	31-Dec-20	170	949	743	376	-
19	Bank of Taiwan	31-Dec-20	170	10	46	134	92
20	Bank Sinopac	31-Dec-20	367	120	165	322	40
21	Barclays Bank PLC	31-Dec-20	113	1,760	1,685	188	2
22	BDO Unibank, Inc.	31-Dec-20	78	13	35	56	-
23	BNP Paribas	31-Dec-20	2,316	3,652	4,344	1,624	489
24	CA Indosuez (Switzerland) SA	31-Dec-20	37	308	321	24	-
25	Canadian Imperial Bank of Commerce	31-Oct-20	56	495	215	336	-
26	Canara Bank	31-Mar-20	(35)	103	(2)	70	90
27	Cathay Bank	31-Dec-20	64	7	45	26	85
28	Cathay United Bank Company, Limited	31-Dec-20	277	101	197	181	88
29	Chang Hwa Commercial Bank, Ltd.	31-Dec-20	133	25	38	120	163
30	Chiba Bank, Ltd. (The)	31-Mar-20	53	4	29	28	-
31	China Bohai Bank Co., Ltd.	31-Dec-20	-	-	-	-	-
32	China Construction Bank Corporation	31-Dec-20	1,201	495	604	1,092	39
33	China Development Bank	31-Dec-20	1,631	347	296	1,682	(587)
34	China Everbright Bank Co., Ltd.	31-Dec-20	1,890	230	415	1,705	61
35	China Merchants Bank Co., Ltd.	31-Dec-20	1,480	631	469	1,642	114
36	China Minsheng Banking Corp., Ltd.	31-Dec-20	1,976	351	475	1,852	20

* Some branches hold impairment allowances of head office

Source: Extracted from individual companies' financial and public statements

Financial highlights

Other items	Profit before tax	Net profit after tax	Size and strength measures: Total assets	Gross advances to customers	Expected credit loss allowance against customer advances*	Total deposits from customers	Liquidity ratio
(160)	(1,183)	(1,277)	18,721	2,775	(145)	555	55.6%
51	2,749	2,338	571,636	254,404	1,804	156,271	90.5%
-	(427)	(353)	54,519	9,563	22	11,764	54.6%
-	231	160	136,227	49,201	386	38,639	43.3%
-	300	249	48,386	40,356	44	1,566	51.1%
-	10	(6)	74,334	27,296	34	2,752	56.8%
-	205	188	75,231	15,644	2,160	12,206	45.7%
-	(32)	(27)	13,583	8,158	-	8,452	42.2%
-	1,020	852	90,386	47,462	1	60,460	39.4%
1	960	789	93,298	50,228	998	33,129	56.0%
-	(197)	(195)	832	499	87	67	37.3%
-	751	628	209,460	-	-	-	520.9%
95	3,633	3,151	516,740	129,535	783	294,222	175.8%
1	(222)	(222)	20,365	11,502	618	3,052	123.45%
-	44	44	59,453	14,329	N/A	21,419	52.96%
-	107	85	67,729	1,001	-	1,741	383.3%
-	122	158	44,848	23,017	-	16,994	41.8%
-	376	308	28,596	12,471	5	14,002	43.1%
(1)	41	41	14,609	3,627	133	7,134	82.9%
(132)	150	122	32,668	8,772	141	24,473	100.0%
-	186	140	10,133	118	4	1,353	289.3%
3	59	36	5,702	3,810	67	2,641	77.9%
-	1,135	964	362,490	158,415	1,126	188,325	39.2%
-	24	19	9,762	2,367	N/A	5,936	58.1%
-	336	283	16,899	6,495	N/A	8,988	56.71%
-	(20)	(20)	10,811	7,730	69	377	87.53%
-	(59)	(59)	3,421	2,174	21	1,765	44.1%
-	93	76	23,629	13,528	7,443	9,164	47.4%
-	(43)	(44)	12,146	3,802	119	7,720	88.4%
-	28	26	10,190	4,136	-	422	97.87%
-	-	-	1,013	-	-	-	57733.9%
-	1,053	841	241,311	51,346	943	73,193	152.6%
-	2,269	2,498	360,623	210,378	13,126	32,779	102.9%
-	1,644	1,366	207,073	70,812	239	77,229	75.6%
-	1,528	1,317	173,357	65,800	170	103,406	54.8%
(20)	1,812	1,419	204,025	97,399	682	98,088	71.1%

	HK$ million	Year ended	Income statement				
			Net interest income	Non-interest income	Operating expenses	Operating profit before impairment charges	Change in expected credit loss against customer advances
37	China Zheshang Bank Co., Ltd.	31-Dec-20	415	101	138	378	4
38	CIMB Bank Berhad	31-Dec-20	62	(11)	86	(35)	178
39	Citibank, N.A.	31-Dec-20	4,435	3,040	4,505	2,970	729
40	Commerzbank AG	31-Dec-20	190	98	274	14	331
41	Commonwealth Bank of Australia	30-Jun-20	116	24	196	(56)	805
42	Coöperatieve Rabobank U.A.	31-Dec-20	500	326	613	213	292
43	Credit Agricole Corporate And Investment Bank	31-Dec-20	633	1,228	1,253	608	137
44	Crédit Industriel et Commercial	31-Dec-20	55	26	50	31	7
45	Credit Suisse AG	31-Dec-20	874	2,876	2,699	1,051	356
46	CTBC Bank Co., Ltd.	31-Dec-20	1,013	359	517	855	160
47	DBS Bank Ltd.	31-Dec-20	1,522	1,001	716	1,807	481
48	Deutsche Bank Aktiengesellschaft	31-Dec-20	1,320	4,493	4,765	1,048	502
49	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt Am Main	31-Dec-20	150	41	171	20	42
50	E.Sun Commercial Bank, Ltd.	31-Dec-20	518	277	174	621	11
51	East West Bank	31-Dec-20	131	43	162	12	(28)
52	EFG Bank AG	31-Dec-20	113	325	604	(166)	-
53	Erste Group Bank AG	31-Dec-20	203	(10)	63	130	-
54	Far Eastern International Bank	31-Dec-20	55	16	40	31	131
55	First Commercial Bank, Ltd.	31-Dec-20	254	42	53	243	65
56	HDFC Bank Limited	31-Mar-20	38	1	14	25	8
57	Hua Nan Commercial Bank, Ltd.	31-Dec-20	186	24	71	139	13
58	ICICI Bank Limited	31-Mar-20	64	194	144	114	137
59	Indian Overseas Bank	31-Mar-20	66	105	26	145	163
60	Industrial And Commercial Bank of China Limited	31-Dec-20	950	169	314	805	(40)
61	Industrial Bank Co., Ltd.	31-Dec-20	1,762	354	574	1,542	3,331
62	Industrial Bank of Korea	31-Dec-20	113	57	33	137	2
63	ING Bank N.V.	31-Dec-20	576	239	450	365	426
64	Intesa Sanpaolo S.p.A.	31-Dec-20	381	118	150	349	367
65	JPMorgan Chase Bank, National Association	31-Dec-20	502	8,339	7,846	995	(68)
66	KBC Bank N.V.	31-Dec-20	60	23	64	19	9
67	KEB Hana Bank	31-Dec-20	265	122	54	333	69
68	Kookmin Bank	31-Dec-20	162	77	56	183	68
69	LGT Bank AG	31-Dec-20	258	1,806	1,878	186	-
70	Macquarie Bank Limited	31-Mar-20	(80)	752	824	(152)	-
71	Malayan Banking Berhad	31-Dec-20	264	79	176	167	240
72	Mega International Commercial Bank Co., Ltd.	31-Dec-20	284	36	84	236	10

* Some branches hold impairment allowances of head office

Source: Extracted from individual companies' financial and public statements

Financial highlights

			Size and strength measures				
Other items	Profit before tax	Net profit after tax	Total assets	Gross advances to customers	Expected credit loss allowance against customer advances*	Total deposits from customers	Liquidity ratio
-	374	316	31,952	11,361	63	2,148	288.8%
-	(213)	(176)	10,273	4,576	181	4,852	107.13%
-	2,241	1,892	549,842	137,631	814	399,300	36.9%
-	(317)	(320)	25,381	9,215	339	3,044	142.0%
-	(861)	(852)	10,718	4,768	(838)	1,753	132.8%
-	(79)	(74)	81,190	37,150	429	8,013	43.6%
(19)	452	376	252,233	53,557	222	32,931	48.9%
-	24	19	14,073	10,274	14	2,880	43.9%
-	695	559	174,832	68,732	46	99,617	164.4%
13	708	574	75,017	23,367	338	61,345	72.2%
-	1,326	1,133	360,413	211,279	1,038	57,145	44.0%
-	546	772	136,164	50,471	1,179	52,130	75.8%
-	(22)	(22)	21,963	8,883	165	453	136.9%
-	610	509	41,149	15,052	332	35,031	46.7%
-	40	37	11,028	5,464	55	6,670	46.4%
(11)	-177	-177	22,275	12,585	-	14,036	45.5%
-	130	118	28,232	-	-	-	69.7%
-	(100)	(95)	4,209	2,156	40	2,790	51.3%
-	178	151	19,351	9,063	160	12,643	45.6%
-	17	15	6,218	2,546	34	861	249.47%
-	126	104	21,614	6,273	76	17,674	60.7%
-	(23)	(17)	20,273	7,228	218	1,985	40.87%
(6)	(24)	(24)	6,554	2,930	28	1,763	105.8%
-	845	698	209,475	68,176	240	-	52.5%
-	(1,789)	(1,481)	210,140	89,702	2,261	97,053	72.0%
-	135	110	14,503	4,482	12	1,821	117.7%
-	(61)	(53)	88,588	39,586	496	6,541	58.1%
1	(17)	(26)	52,789	20,444	761	43,311	46.0%
(7)	1,056	936	244,576	16,821	229	43,745	61.7%
-	10	9	7,217	1,205	21	1,428	52.5%
1	265	197	24,477	18,833	137	4,377	50.0%
-	115	91	24,689	18,306	94	1,500	52.6%
-	186	157	53,157	16,828	-	42,716	61.1%
-	(152)	(155)	29,967	-	-	-	391.1%
-	(73)	(90)	42,258	20,615	384	25,079	64.9%
-	226	194	33,417	9,721	118	30,234	68.7%

	HK$ million	Year ended	Income statement				
			Net interest income	Non-interest income	Operating expenses	Operating profit before impairment charges	Change in expected credit loss against customer advances
73	Mitsubishi UFJ Trust And Banking Corporation	31-Mar-20	127	34	59	102	-
74	Mizuho Bank, Ltd.	31-Mar-20	462	1,470	782	1,150	102
75	MUFG Bank, Ltd.	31-Mar-20	1,033	590	1,173	450	66
76	National Australia Bank Limited	30-Sep-20	215	79	207	87	14
77	Natixis	31-Dec-20	149	1,660	1,428	381	176
78	O-Bank Co., Ltd.	31-Dec-20	233	70	113	190	61
79	Oversea-Chinese Banking Corporation Limited	31-Dec-20	1,058	219	312	965	552
80	Pictet & Cie (Europe) S.A.	31-Dec-20	9	270	534	(255)	(1)
81	PING AN BANK CO., LTD.	31-Dec-20	126	151	212	65	131
82	Punjab National Bank	31-Mar-20	115	26	25	116	63
83	QATAR NATIONAL BANK (Q.P.S.C.)	31-Dec-20	(1)	-	35	(36)	-
84	Royal Bank of Canada	31-Oct-20	68	815	829	54	-
85	Shanghai Commercial & Savings Bank, Ltd. (The)	31-Dec-20	134	33	40	127	17
86	Shanghai Pudong Development Bank Co., Ltd.	31-Dec-20	953	1,041	522	1,472	196
87	Shinhan Bank	31-Dec-20	283	147	71	359	5
88	Societe Generale	31-Dec-20	188	2,478	1,817	849	255
89	State Bank of India	31-Mar-20	454	156	314	296	266
90	State Street Bank And Trust Company	31-Dec-20	218	1,579	1,604	193	-
91	Sumitomo Mitsui Banking Corporation	31-Mar-20	1,196	753	651	1,298	107
92	Sumitomo Mitsui Trust Bank, Limited	31-Mar-20	(1,095)	1,394	85	214	-
93	Taipei Fubon Commercial Bank Co., Ltd.	31-Dec-20	543	264	194	613	9
94	Taishin International Bank Co., Ltd	31-Dec-20	202	208	175	235	54
95	Taiwan Business Bank, Ltd	31-Dec-20	95	9	37	67	40
96	Taiwan Cooperative Bank, Ltd.	31-Dec-20	182	16	33	165	144
97	Taiwan Shin Kong Commercial Bank Co., Ltd.	31-Dec-20	84	22	44	62	9
98	UBS AG	31-Dec-20	2,823	18,176	10,920	10,079	646
99	UCO Bank	31-Mar-20	68	140	47	161	158
100	UniCredit Bank AG	31-Dec-20	529	(64)	286	179	-
101	Union Bancaire Privée, UBP SA	31-Dec-20	153	400	489	64	-
102	Union Bank of India	31-Mar-20	59	98	34	123	691
103	United Overseas Bank Ltd.	31-Dec-20	2,426	454	666	2,214	450
104	Wells Fargo Bank, National Association	31-Dec-20	85	1,517	1,632	(30)	-
105	Westpac Banking Corporation	30-Sep-20	(4)	183	125	54	915
106	Woori Bank	31-Dec-20	153	52	37	168	(6)
107	Yuanta Commercial Bank Co., Ltd.	31-Dec-20	45	4	41	8	80
	Total	**2020**	**52,964**	**82,367**	**75,128**	**60,203**	**17,894**

* Some branches hold impairment allowances of head office
Source: Extracted from individual companies' financial and public statements

Financial highlights							
			Size and strength measures				
Other items	Profit before tax	Net profit after tax	Total assets	Gross advances to customers	Expected credit loss allowance against customer advances*	Total deposits from customers	Liquidity ratio
-	102	102	26,157	-	-	738	194.5%
-	1,048	925	549,150	210,224	162	113,297	61.5%
(5)	379	293	425,799	210,430	2,168	111,437	49.81%
-	73	56	85,149	3,683	41	13,100	180.5%
-	205	227	87,981	44,454	76	7,311	46.6%
-	129	110	13,186	7,355	98	11,099	55.4%
-	413	336	128,924	52,043	546	25,835	139.4%
-	(254)	(254)	9,410	1,509	1	5,526	59.9%
-	(66)	(69)	25,204	9,068	101	13,984	95%
-	53	53	21,592	13,639	366	150	127.4%
-	(36)	(36)	2,855	-	-	2,791	165.53%
-	54	54	57,896	688	-	967	135.0%
-	110	83	8,376	3,146	60	5,324	46.0%
-	1,276	1,007	212,229	82,350	525	85,784	57.9%
-	354	274	36,429	22,090	72	3,214	129.9%
(1)	593	529	135,444	53,047	(374)	8,202	60.9%
-	30	14	110,461	34,738	504	4,706	91.5%
-	193	178	50,331	39	-	18,380	54.0%
1	1,192	1,142	308,982	149,656	159	72,973	51.7%
-	214	184	79,390	16,151	20,541	23,914	120.6%
3	607	505	56,284	19,997	246	37,142	40.1%
-	181	149	17,815	8,676	86	14,244	42.8%
-	27	5	5,225	2,637	43	3,738	44.6%
-	21	5	9,344	4,438	135	5,876	56.1%
-	53	42	8,410	3,759	47	6,314	80.1%
-	9,433	7,846	256,448	182,069	650	173,592	57.0%
-	3	3	7,043	4,530	37	2,348	398.3%
-	179	179	91,553	3,613	-	2,085	745.3%
-	64	53	22,640	9,739	-	13,570	74.4%
-	(568)	(568)	17,844	14,240	694	971	110.42%
-	1,764	1,437	201,544	141,760	915	50,848	43.6%
-	(30)	(35)	18,853	8,037	-	711	381.0%
-	(861)	(874)	20,193	15,217	700	6,422	59.9%
-	174	152	24,661	14,919	31	1,970	111.3%
-	(72)	(69)	3,564	1,269	18	3,103	88.9%
(192)	**42,117**	**35,338**	**9,920,779**	**3,776,640**	**69,414**	**3,288,819**	**687**

Foreign bank branches - Financial highlights

(Continued)

	HK$ million	Year ended	Key ratios			
			Performance measures			
			Net customer loan/deposit ratio	Net interest income/ average total assets	Non-interest income/total operating income	Cost/ income ratio
1	ABN AMRO Bank N.V.	31-Dec-20	526.1%	0.7%	34.7%	77.9%
2	Agricultural Bank of China Limited	31-Dec-20	161.6%	0.5%	15.9%	12.4%
3	First Abu Dhabi Bank PJSC	31-Dec-20	81.1%	0.4%	55.0%	45.0%
4	Australia And New Zealand Banking Group Limited	30-Sep-20	126.3%	0.4%	56.3%	77.9%
5	Banco Bilbao Vizcaya Argentaria S.A.	31-Dec-20	2,574.2%	0.8%	37.7%	33.1%
6	Banco Santander, S.A.	31-Dec-20	990.6%	0.3%	65.3%	93.8%
7	Bangkok Bank Public Company Limited	31-Dec-20	110.5%	0.5%	22.9%	31.6%
8	Bank J. Safra Sarasin AG	31-Dec-20	96.5%	0.8%	73.5%	108.0%
9	Bank Julius Baer & Co. Ltd.	31-Dec-20	78.5%	0.5%	83.1%	65.2%
10	Bank of America, National Association	31-Dec-20	148.6%	0.9%	55.0%	66.5%
11	Bank of Baroda	31-Mar-20	614.9%	-0.5%	130.0%	50.0%
12	Bank of China Limited	31-Dec-20	0.0%	0.2%	49.9%	14.1%
13	Bank of Communications Co., Ltd.	31-Dec-20	43.8%	0.3%	67.1%	26.5%
14	Bank of India	31-Mar-20	356.6%	0.8%	14.6%	21.7%
15	Bank of Montreal	31-Oct-20	N/A	0.4%	66.7%	91.4%
16	Bank of New York Mellon (The)	31-Dec-20	57.5%	0.0%	104.4%	84.9%
17	Bank of Nova Scotia (The)	31-Oct-20	135.4%	0.5%	44.8%	70.6%
18	Bank of Singapore Limited	31-Dec-20	89.0%	0.6%	84.8%	66.4%
19	Bank of Taiwan	31-Dec-20	49.0%	1.1%	5.6%	25.6%
20	Bank Sinopac	31-Dec-20	35.3%	1.3%	24.6%	33.9%
21	Barclays Bank PLC	31-Dec-20	8.4%	1.0%	94.0%	90.0%
22	BDO Unibank, Inc.	31-Dec-20	141.7%	1.3%	14.3%	38.5%
23	BNP Paribas	31-Dec-20	83.5%	0.6%	61.2%	72.8%
24	CA Indosuez (Switzerland) SA	31-Dec-20	N/A	0.4%	89.3%	93.0%
25	Canadian Imperial Bank of Commerce	31-Oct-20	N/A	0.3%	89.8%	39.0%
26	Canara Bank	31-Mar-20	2,032.1%	-0.3%	151.5%	-2.9%
27	Cathay Bank	31-Dec-20	122.0%	1.6%	9.9%	63.4%
28	Cathay United Bank Company, Limited	31-Dec-20	66.4%	1.2%	26.7%	52.1%
29	Chang Hwa Commercial Bank, Ltd.	31-Dec-20	47.7%	1.0%	15.8%	24.1%
30	Chiba Bank, Ltd. (The)	31-Mar-20	980.1%	0.5%	7.0%	50.9%
31	China Bohai Bank Co., Ltd.	31-Dec-20	N/A	0.0%	N/A	N/A
32	China Construction Bank Corporation	31-Dec-20	68.9%	0.5%	29.2%	35.6%
33	China Development Bank	31-Dec-20	601.8%	0.4%	17.5%	15.0%
34	China Everbright Bank Co., Ltd.	31-Dec-20	91.4%	1.0%	10.8%	19.6%
35	China Merchants Bank Co., Ltd.	31-Dec-20	63.5%	0.8%	29.9%	22.2%
36	China Minsheng Banking Corp., Ltd.	31-Dec-20	98.6%	1.0%	15.1%	20.4%

Source: Extracted from individual companies' financial and public statements

	Loan asset quality				
	Impaired advances / Stage 3 advances				
ROA	Gross impaired advances	Gross impaired advances/ Advances to customers	Stage 3 expected credit loss allowane made against impaired advances	Stage 3 expected credit loss allowance made against impaired advances as percentage of gross impaired advances	Collateral for impaired advances
-4.3%	73	2.6%	73	100.0%	6
0.4%	116	0.0%	112	96.6%	1
-0.9%	-	0.0%	-	0.0%	-
0.1%	3	0.0%	3	100.0%	-
0.6%	802	2.0%	14	1.7%	804
0.0%	-	0.0%	-	0.0%	-
0.2%	126	0.8%	118	93.7%	-
-0.2%	-	0.0%	-	0.0%	-
0.9%	-	0.0%	-	0.0%	-
0.7%	429	0.9%	405	94.4%	-
-9.9%	268	53.8%	64	24.0%	43
0.3%	-	0.0%	-	0.0%	-
0.6%	2,601	2.0%	318	12.2%	2,378
-1.0%	377	3.3%	290	76.9%	171
0.1%	-	0.0%	-	0.0%	-
0.1%	-	0.0%	-	0.0%	-
0.3%	-	0.0%	-	0.0%	-
1.1%	5	0.0%	5	100.0%	-
0.3%	229	6.3%	87	38.0%	-
0.4%	92	1.0%	N/A	N/A	-
1.2%	-	0.0%	-	0.0%	-
0.6%	N/A	N/A	N/A	N/A	N/A
0.3%	2,439	1.5%	759	31.1%	445
0.2%	-	0.0%	-	0.0%	-
1.6%	-	0.0%	-	0.0%	-
-0.1%	-	0.0%	-	0.0%	-
-1.5%	44	2.0%	-	0.0%	1
0.3%	296	2.2%	59	19.9%	-
-0.3%	228	6.0%	73	32.0%	-
0.3%	-	0.0%	-	0.0%	-
0.0%	-	N/A	-	0.0%	-
0.3%	28	0.1%	8	28.6%	28
0.6%	5,775	2.7%	3,494	60.5%	601
0.7%	10	0.0%	10	100.0%	-
0.7%	290	0.4%	53	18.3%	217
0.7%	555	0.6%	241	43.4%	9

	HK$ million	Year ended	Key ratios: Performance measures: Net customer loan/deposit ratio	Net interest income/ average total assets	Non-interest income/total operating income	Cost/ income ratio
37	China Zheshang Bank Co., Ltd.	31-Dec-20	526.0%	1.4%	19.6%	26.7%
38	CIMB Bank Berhad	31-Dec-20	90.6%	0.6%	-21.6%	168.6%
39	Citibank, N.A.	31-Dec-20	34.3%	0.9%	40.7%	60.3%
40	Commerzbank AG	31-Dec-20	291.6%	0.8%	34.0%	95.1%
41	Commonwealth Bank of Australia	30-Jun-20	319.8%	0.8%	17.1%	140.0%
42	Coöperatieve Rabobank U.A.	31-Dec-20	458.3%	0.6%	39.5%	74.2%
43	Credit Agricole Corporate And Investment Bank	31-Dec-20	162.0%	0.3%	66.0%	67.3%
44	Crédit Industriel et Commercial	31-Dec-20	356.3%	0.4%	32.1%	61.7%
45	Credit Suisse AG	31-Dec-20	69.0%	0.5%	76.7%	72.0%
46	CTBC Bank Co., Ltd.	31-Dec-20	37.5%	1.3%	26.2%	37.7%
47	DBS Bank Ltd.	31-Dec-20	367.9%	0.4%	39.7%	28.4%
48	Deutsche Bank Aktiengesellschaft	31-Dec-20	94.6%	1.0%	77.3%	82.0%
49	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt Am Main	31-Dec-20	1,924.5%	0.7%	21.5%	89.5%
50	E.Sun Commercial Bank, Ltd.	31-Dec-20	42.0%	1.3%	34.8%	21.9%
51	East West Bank	31-Dec-20	81.1%	1.2%	24.7%	93.1%
52	EFG Bank AG	31-Dec-20	89.7%	0.5%	74.2%	137.9%
53	Erste Group Bank AG	31-Dec-20	0.0%	0.8%	-5.2%	32.6%
54	Far Eastern International Bank	31-Dec-20	75.8%	1.3%	22.5%	56.3%
55	First Commercial Bank, Ltd.	31-Dec-20	70.4%	1.3%	14.2%	17.9%
56	HDFC Bank Limited	31-Mar-20	291.8%	0.8%	2.6%	35.9%
57	Hua Nan Commercial Bank, Ltd.	31-Dec-20	35.1%	0.9%	11.4%	33.8%
58	ICICI Bank Limited	31-Mar-20	353.1%	0.3%	75.2%	55.8%
59	Indian Overseas Bank	31-Mar-20	164.6%	1.0%	61.4%	15.2%
60	Industrial And Commercial Bank of China Limited	31-Dec-20	N/A	0.5%	15.1%	28.1%
61	Industrial Bank Co., Ltd.	31-Dec-20	90.1%	0.8%	16.7%	27.1%
62	Industrial Bank of Korea	31-Dec-20	245.5%	0.8%	33.5%	19.4%
63	ING Bank N.V.	31-Dec-20	597.6%	0.6%	29.3%	55.2%
64	Intesa Sanpaolo S.p.A.	31-Dec-20	45.4%	0.7%	23.6%	30.1%
65	JPMorgan Chase Bank, National Association	31-Dec-20	37.9%	0.2%	94.3%	88.7%
66	KBC Bank N.V.	31-Dec-20	82.9%	0.7%	27.7%	77.1%
67	KEB Hana Bank	31-Dec-20	427.1%	1.1%	31.5%	14.0%
68	Kookmin Bank	31-Dec-20	1,214.1%	0.8%	32.2%	23.4%
69	LGT Bank AG	31-Dec-20	39.4%	0.5%	87.5%	91.0%
70	Macquarie Bank Limited	31-Mar-20	N/A	-0.2%	111.9%	122.6%
71	Malayan Banking Berhad	31-Dec-20	80.7%	0.7%	23.0%	51.3%
72	Mega International Commercial Bank Co., Ltd.	31-Dec-20	31.8%	0.9%	11.3%	26.3%

Source: Extracted from individual companies' financial and public statements

	Loan asset quality				
	Impaired advances / Stage 3 advances				
ROA	Gross impaired advances	Gross impaired advances/ Advances to customers	Stage 3 expected credit loss allowane made against impaired advances	Stage 3 expected credit loss allowance made against impaired advances as percentage of gross impaired advances	Collateral for impaired advances
1.1%	-	0.0%	-	0.0%	-
-1.7%	-	0.0%	-	0.0%	-
0.4%	302	0.2%	171	56.6%	23
-1.3%	331	3.6%	325	98.2%	-
-6.0%	654	13.7%	591	90.4%	N/A
-0.1%	1,078	2.9%	397	36.8%	489
0.2%	160	0.3%	60	37.5%	N/A
0.1%	-	0.0%	-	0.0%	-
0.3%	24	0.0%	14	58.3%	15
0.8%	408	1.7%	256	62.7%	-
0.3%	N/A	N/A	N/A	0.0%	N/A
0.6%	3,530	7.0%	1,095	31.0%	1,996
-0.1%	333	3.7%	165	49.5%	-
1.3%	-	0.0%	-	N/A	-
0.3%	-	0.0%	-	0.0%	-
-0.7%	-	0.0%	-	0.0%	-
0.4%	N/A	N/A	N/A	N/A	N/A
-2.3%	67	3.1%	13	19.4%	-
0.8%	221	2.4%	78	35.3%	-
0.3%	-	0.0%	-	0.0%	-
0.5%	80	N/A	8	9.9%	-
-0.1%	210	2.9%	140	66.7%	-
-0.4%	20	0.7%	6	30.0%	1
0.3%	30	0.0%	30	100.0%	-
-0.7%	N/A	N/A	N/A	N/A	N/A
0.8%	-	0.0%	-	0.0%	N/A
-0.1%	1,447	3.7%	443	30.6%	5
0.0%	1,087	5.3%	579	53.3%	71
0.4%	-	0.0%	-	0.0%	-
0.1%	19	1.6%	18	94.7%	-
0.8%	-	0.0%	-	0.0%	-
0.4%	-	0.0%	-	0.0%	-
0.3%	-	0.0%	-	0.0%	-
-0.5%	-	N/A	-	0.0%	-
-0.2%	249	1.2%	208	83.5%	N/A
0.6%	-	0.0%	-	0.0%	-

	HK$ million	Year ended	Key ratios			
			Performance measures			
			Net customer loan/deposit ratio	Net interest income/ average total assets	Non-interest income/total operating income	Cost/ income ratio
73	Mitsubishi UFJ Trust And Banking Corporation	31-Mar-20	0.0%	0.5%	21.1%	36.6%
74	Mizuho Bank, Ltd.	31-Mar-20	185.4%	0.1%	76.1%	40.5%
75	MUFG Bank, Ltd.	31-Mar-20	186.9%	0.2%	36.4%	72.3%
76	National Australia Bank Limited	30-Sep-20	27.8%	0.3%	26.9%	70.4%
77	Natixis	31-Dec-20	607.0%	0.2%	91.8%	78.9%
78	O-Bank Co., Ltd.	31-Dec-20	65.4%	1.8%	23.1%	37.3%
79	Oversea-Chinese Banking Corporation Limited	31-Dec-20	199.3%	0.9%	17.1%	24.4%
80	Pictet & Cie (Europe) S.A.	31-Dec-20	27.3%	0.1%	96.8%	191.4%
81	PING AN BANK CO., LTD.	31-Dec-20	64.1%	0.9%	54.5%	76.5%
82	Punjab National Bank	31-Mar-20	8,848.7%	0.5%	18.4%	17.7%
83	QATAR NATIONAL BANK (Q.P.S.C.)	31-Dec-20	0.0%	0.0%	0.0%	-3,500.0%
84	Royal Bank of Canada	31-Oct-20	71.1%	0.1%	92.3%	93.9%
85	Shanghai Commercial & Savings Bank, Ltd. (The)	31-Dec-20	58.0%	1.7%	19.8%	24.0%
86	Shanghai Pudong Development Bank Co., Ltd.	31-Dec-20	95.4%	0.5%	52.2%	26.2%
87	Shinhan Bank	31-Dec-20	685.1%	0.8%	34.2%	16.5%
88	Societe Generale	31-Dec-20	651.3%	0.1%	92.9%	68.2%
89	State Bank of India	31-Mar-20	727.5%	0.4%	25.6%	51.5%
90	State Street Bank And Trust Company	31-Dec-20	0.2%	0.5%	87.9%	89.3%
91	Sumitomo Mitsui Banking Corporation	31-Mar-20	204.9%	0.4%	38.6%	33.4%
92	Sumitomo Mitsui Trust Bank, Limited	31-Mar-20	-18.4%	-1.2%	466.2%	28.4%
93	Taipei Fubon Commercial Bank Co., Ltd.	31-Dec-20	53.2%	0.9%	32.7%	24.0%
94	Taishin International Bank Co., Ltd	31-Dec-20	60.3%	1.2%	50.7%	42.7%
95	Taiwan Business Bank, Ltd	31-Dec-20	69.4%	1.7%	8.7%	35.6%
96	Taiwan Cooperative Bank, Ltd.	31-Dec-20	73.2%	1.8%	8.1%	16.7%
97	Taiwan Shin Kong Commercial Bank Co., Ltd.	31-Dec-20	58.8%	1.1%	20.8%	41.5%
98	UBS AG	31-Dec-20	104.5%	1.2%	86.6%	52.0%
99	UCO Bank	31-Mar-20	191.4%	1.0%	67.3%	22.6%
100	UniCredit Bank AG	31-Dec-20	173.3%	0.6%	-13.8%	61.5%
101	Union Bancaire Privée, UBP SA	31-Dec-20	71.8%	0.7%	72.3%	88.4%
102	Union Bank of India	31-Mar-20	1,395.1%	0.4%	62.4%	21.7%
103	United Overseas Bank Ltd.	31-Dec-20	277.0%	1.2%	15.8%	23.1%
104	Wells Fargo Bank, National Association	31-Dec-20	1,130.4%	0.3%	94.7%	101.9%
105	Westpac Banking Corporation	30-Sep-20	226.1%	0.0%	102.2%	69.8%
106	Woori Bank	31-Dec-20	755.7%	0.7%	25.4%	18.0%
107	Yuanta Commercial Bank Co., Ltd.	31-Dec-20	40.3%	1.2%	8.2%	83.7%
	Total	**2020**	**112.7%**	**0.5%**	**60.9%**	**55.5%**

Source: Extracted from individual companies' financial and public statements

	Loan asset quality				
	Impaired advances / Stage 3 advances				
ROA	Gross impaired advances	Gross impaired advances/ Advances to customers	Stage 3 expected credit loss allowane made against impaired advances	Stage 3 expected credit loss allowance made against impaired advances as percentage of gross impaired advances	Collateral for impaired advances
0.4%	-	N/A	-	0.0%	-
0.2%	613	0.3%	162	26.4%	1
0.1%	117	0.1%	57	48.7%	-
0.1%	4	0.1%	-	0.0%	N/A
0.2%	119	0.3%	41	34.5%	-
0.8%	66	0.9%	7	10.6%	66
0.3%	961	1.8%	460	47.9%	327
-3.1%	-	0.0%	-	0.0%	-
-0.5%	-	0.0%	-	0.0%	-
0.2%	146	1.1%	217	148.6%	N/A
-1.3%	-	N/A	-	0.0%	-
0.1%	-	0.0%	-	0.0%	-
1.0%	22	0.7%	14	63.6%	-
0.5%	233	0.3%	173	74.2%	N/A
0.8%	-	0.0%	-	0.0%	-
0.4%	1,018	1.9%	279	27.4%	-
0.0%	194	0.6%	-	0.0%	-
0.4%	-	0.0%	-	0.0%	-
0.4%	506	0.3%	159	31.4%	-
0.2%	-	0.0%	-	0.0%	-
0.9%	269	1.3%	49	18.2%	-
0.9%	62	0.7%	62	100.0%	-
0.1%	67	2.5%	16	23.9%	N/A
0.0%	314	7.1%	79	25.2%	-
0.5%	-	0.0%	-	0.0%	-
3.2%	2,042	1.1%	650	31.8%	2,042
0.0%	76	1.7%	9	11.8%	61
0.2%	-	0.0%	-	0.0%	-
0.2%	-	0.0%	-	0.0%	-
-3.5%	823	5.8%	352	42.8%	731
0.7%	1,678	1.2%	469	27.9%	728
-0.1%	-	0.0%	-	N/A	-
-3.3%	1,078	7.1%	639	59.3%	-
0.7%	-	0.0%	-	0.0%	N/A
-1.8%	-	0.0%	-	0.0%	-
0.4%	**35,364**	**0.9%**	**14,677**	**41.5%**	**11,260**

Virtual banks - Financial highlights

			Financial highlights							
			Income statement							
	HK$ million	Year ended	Net interest income	Non-interest income	Operating expenses	Operating profit before impairment charges	Change in expected credit loss against customer advances	Other items	Profit before tax	Net profit after tax
1	Airstar Bank Limited	31-Dec-20	13	2	241	(226)	5	1	(232)	(232)
2	Ant Bank (Hong Kong) Limited	31-Dec-20	5	(3)	172	(170)	-	(2)	(172)	(172)
3	Fusion Bank Limited	31-Dec-20	2	1	285	(282)	-	(1)	(283)	(283)
4	Livi VB Limited	31-Dec-20	13	1	452	(438)	-	-	(438)	(438)
5	Mox Bank Limited	31-Dec-20	1	(3)	455	(456)	-	-	(456)	(456)
6	Ping An OneConnect Bank (Hong Kong) Limited	31-Dec-20	3	5	191	(183)	1	-	(184)	(184)
7	WeLab Bank Limited	31-Dec-20	(2)	3	285	(284)	-	(4)	(288)	(288)
8	ZA Bank Limited	31-Dec-20	26	6	379	(347)	9	3	(352)	(352)
	Total	**2020**	**61**	**12**	**2,460**	**(2,386)**	**15**	**(3)**	**(2,405)**	**(2,405)**

Source: Extracted from individual banks' financial and public statements

							Key ratios					
Size and strength measures							Performance measures					
Total assets	Gross advances to customers	Expected credit loss allowance against customer advances	Total deposits from customers	Total equity	Capital adequacy ratio	Liquidity ratio	Net customer loan/ deposit ratio	Net interest income/ average total assets	Non-interest income/ total operating income	Cost/ income ratio	ROA	ROE
2,880	557	5	1,578	1,203	66.3%	281.0%	35.0%	0.6%	13.3%	1,606.7%	-10.5%	-18%
1,392	-	-	734	617	223.1%	133.5%	0.0%	0.5%	-150.0%	8,600.0%	-15.9%	-25%
1,070	-	-	325	575	82.4%	780.6%	0.0%	0.3%	33.3%	9,500.0%	-38.1%	-61%
2,342	-	-	320	1,861	139.9%	464.3%	0.0%	0.5%	7.1%	3,228.6%	-18.0%	-21%
6,757	1	-	5,194	1,265	59.1%	81.6%	0.0%	0.0%	300.0%	-45,500.0%	-10.7%	-36%
1,220	70	1	482	611	81.8%	148.4%	14.3%	0.3%	62.5%	2,387.5%	-20.0%	-33%
1,721	-	-	1,105	495	130.2%	853.9%	0.0%	-0.2%	-150.0%	28,500.0%	-25.0%	-57%
7,861	683	9	6,037	1,561	30.6%	91.3%	11.2%	0.6%	18.8%	1,184.4%	-7.6%	-24%
25,243	**1,311**	**15**	**15,775**	**8,188**	**-**	**-**	**8.2%**	**0.2%**	**16.0%**	**3,280.0%**	**-9.5%**	**-29%**

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