Back to Business, Seizing Opportunities

Hong Kong Banking Report 2023

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Contents

Introduction

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In our annual report we review the financial performance of banks in Hong Kong in 2022 and look at some of the key topics and growth areas for the sector

Welcome to the latest edition of our annual Hong Kong Banking Report, where we review the financial results of banks in the city in 2022 and share our thoughts on the outlook for the sector. This report includes key statistics and our analysis of the performance of banks in 2022, as well as expert insights into some of the major trends and topics for banks in the year to come.

As we come out of Covid and the restrictions that were in place in Hong Kong, all of us working in the banking sector in Hong Kong are looking to get back to business and seize the opportunities that exist.

Banking performance

The early months of 2022 were dominated by the fifth wave of Covid and the Hong Kong (SAR) economy shrank by 3.5% in the year. However, the outlook brightened considerably towards the end of the year as restrictions were eased.

Despite the slowing economy globally and in Hong Kong, banks in the city performed well in many areas. This was principally due to the interest rate rises during the year. As we predicted in last year's Banking Report, rising interest rates led to higher net interest margins for banks in the city. This fed through to a significant rise in operating profit during the year.

However, banks in Hong Kong saw a rise in the impaired loan ratio in 2022, due in part to their exposure to the China property market. In this report we take a look at how the China real estate issues in loan portfolios developed and consider what banks should learn from the experience. We also review the performance of the eight virtual banks in Hong Kong in their second full year of operations, and note how they are seeking to differentiate themselves in a competitive market.

Key trends and topics

As the Hong Kong banking sector gets back to normal business operations, we look at the city's role as an IFC and consider how to strengthen our advantages as a financial hub. Key elements of our unique status include our crucial role as a bridge to the Chinese Mainland and our corporate tax system, but we must not be complacent, especially given that we have some ground to make up following the long period of Covid restrictions

We also review some of the key growth areas for banks including ESG and climate risk management, and the growing opportunities in wealth management services. Business transformation continues to be a hot topic as banks look to operate more efficiently while improving their service to clients. New technology can help banks to transform but also comes with possible exposure to new risks.

New regulations and evolving risk also offer challenges and opportunities, and we look at some of the latest development in areas including operational resilience and data analytics that will affect banks in the year ahead.

We hope you enjoy the information and insights in this report. Please feel free to get in touch if you would like to discuss the financial results or the broader outlook for the Hong Kong banking industry.

Financial performance

Financial performance

Overview

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Banks in Hong Kong see balance-sheet and profit growth in 2022 despite global and domestic headwinds and a rise in impaired loans

In 2022, global economic growth moderated amid the continuing impact of the Covid-19 pandemic, coupled with elevated inflationary pressures and a higher interest rate environment. Hong Kong's economy also experienced a notable slowdown with a contraction of 3.5 percent in 2022[1] compared to a 6.4 percent expansion in 2021.

Despite these headwinds, Hong Kong's banking sector saw moderate growth in its overall balance sheet in 2022. The total assets of all licensed banks expanded by 2.5 percent to HK$23 trillion. There was a slight decrease of 0.6 percent in loans and advances and a decrease of 0.2 percent in deposits. In line with our prediction in our 2022 Hong Kong Banking Report, the effect of the rising interest rate environment benefited the earnings of the city's banks, with an increase in net interest margins (NIM). The NIM for all licensed banks increased by 24 basis points in 2022 to 1.55 percent. Operating profit before impairment charges for all licensed banks increased by 24.3 percent to HK$220 billion in 2022.

Following seven interest rate rises in 2022, the US Federal Reserve again raised the Federal Funds Rate by 25 basis points each in February, March and May 2023. In tandem with the Federal Funds Rate increases, the Hong Kong Monetary Authority raised the base rate from 0.5 percent to 4.75 percent during 2022, and further increased to 5.5 percent during January to May 2023. We also observed a sizable increase in the Hong Kong Interbank Offered Rate (HIBOR) in 2022 from 0.26 percent to 4.99 percent[2] (for three-month HIBOR). The composite interest rate, which is a measure of the average cost of funds of banks, increased by 190 basis points from 0.21 percent in December 2021 to 2.11 percent in December 2022.

Moving into 2023, uncertainties about the future interest rate pattern remain high, but the reducing aggregate balance indicates that HIBOR and LIBOR should converge as banks offer more attractive rates to attract Hong Kong dollar funding. The Hong Kong (SAR) Government has forecast the city's economy to grow by 3.5 to 5.5 percent in 2023, after a 3.5 percent contraction in 2022. The consumer price inflation is forecast to be 2.5 percent in 2023, up from 1.7 percent in 2022[1].

[1] 2022 Economic Background and 2023 Prospects, Hong Kong SAR Government, February 2023, p.2, 8 and 9, https://www.hkeconomy.gov.hk/en/pdf/22q4_ppt.pdf
[2] The Hong Kong Association of Banks - HKD Interest Settlement Rates Highlights

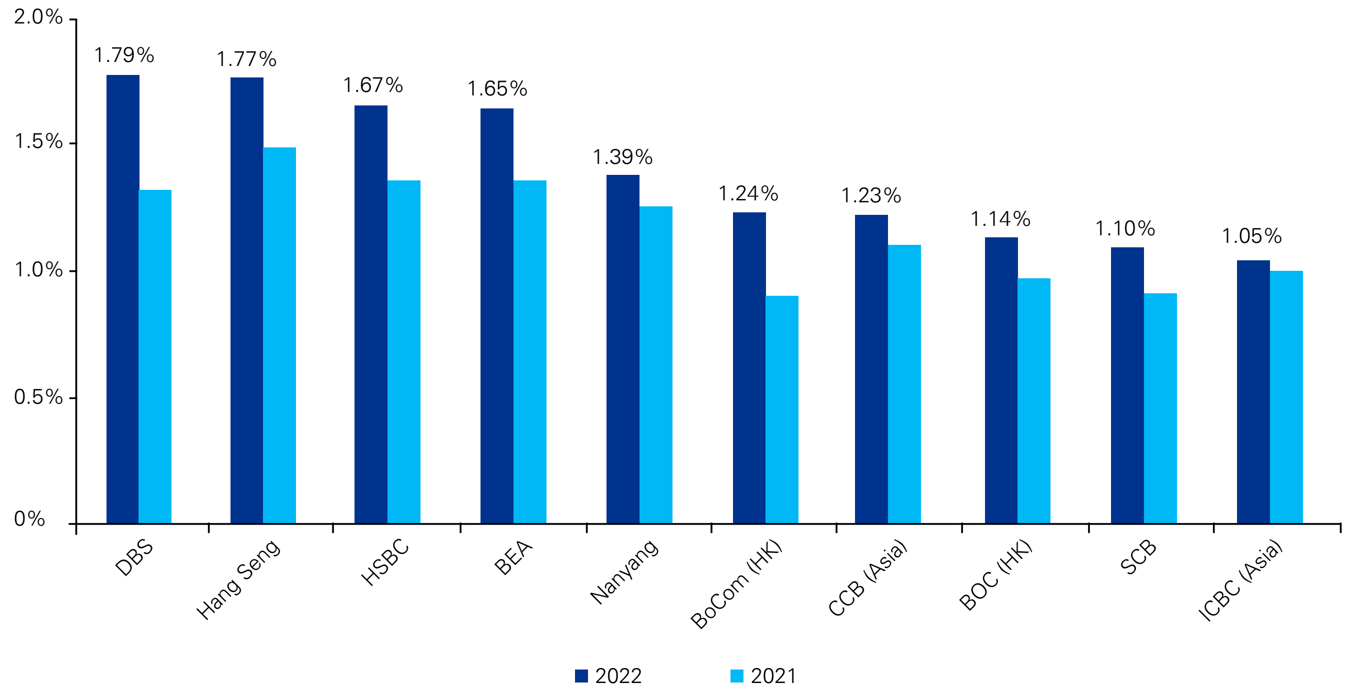
Looking ahead, the performance of the Hong Kong banking sector in 2023 is likely to be linked closely to the speed and extent of the economic recovery in Hong Kong and also the growth of the Chinese Mainland economy, and in particular the health of its real estate and technology, media and telecoms sectors. While the high interest rate environment could bring an opportunity to improve profitability, it is imperative for banks to closely monitor and manage the credit risk of their loan portfolios.

Hong Kong's eight virtual bank were all active in the market during 2022: please refer to the section on virtual banks for more details.

In this report, we present an analysis[3] of 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 (eg a branch and an incorporated authorised 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 average NIM[5] across all surveyed licensed banks increased by 24 basis points compared with 2021, driven by the higher interest environment with a relatively steeper yield curve and wider credit spread on financial assets. The total net interest income of all surveyed licensed banks increased by 23.7 percent from HK$224 billion in 2021 to HK$277 billion in 2022, contributed by a 47.3

[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 2022.

[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.

percent increase in interest income and partly offset by a 113.5 percent increase in interest expenses. The average NIM for the top 10 licensed banks in 2022 increased to 1.36 percent from 1.14 percent in 2021. All the top 10 licensed banks recorded an increase in NIM.

Among the top 10 licensed banks, DBS Bank (Hong Kong) Limited (DBS), Hang Seng Bank, Limited (Hang Seng) and The Hongkong and Shanghai Banking Corporation Limited (HSBC) recorded the top three largest NIM in 2022. DBS also recorded the largest increase of 46 basis points from 1.33 percent in 2021 to 1.79 percent in 2022. For DBS, net interest income also increased due to the expansion in both the loans and investment securities of the bank by 15.4 percent and 68.3 percent respectively during the year[6].

Hang Seng's NIM improved to 1.77 percent in 2022 from 1.49 percent in 2021. The increase was largely driven by the 17 basis points increase in deposit spreads and 11 basis points increase in net-free fund contribution, which resulted from the bank's proactive management of its assets and liabilities structure amid global interest rate hikes[7].

The NIM of HSBC increased by 30 basis points from 1.37 percent in 2021 to 1.67 percent in 2022. The increase was mainly attributed to wider customer deposit spreads and higher reinvestment yields[8].

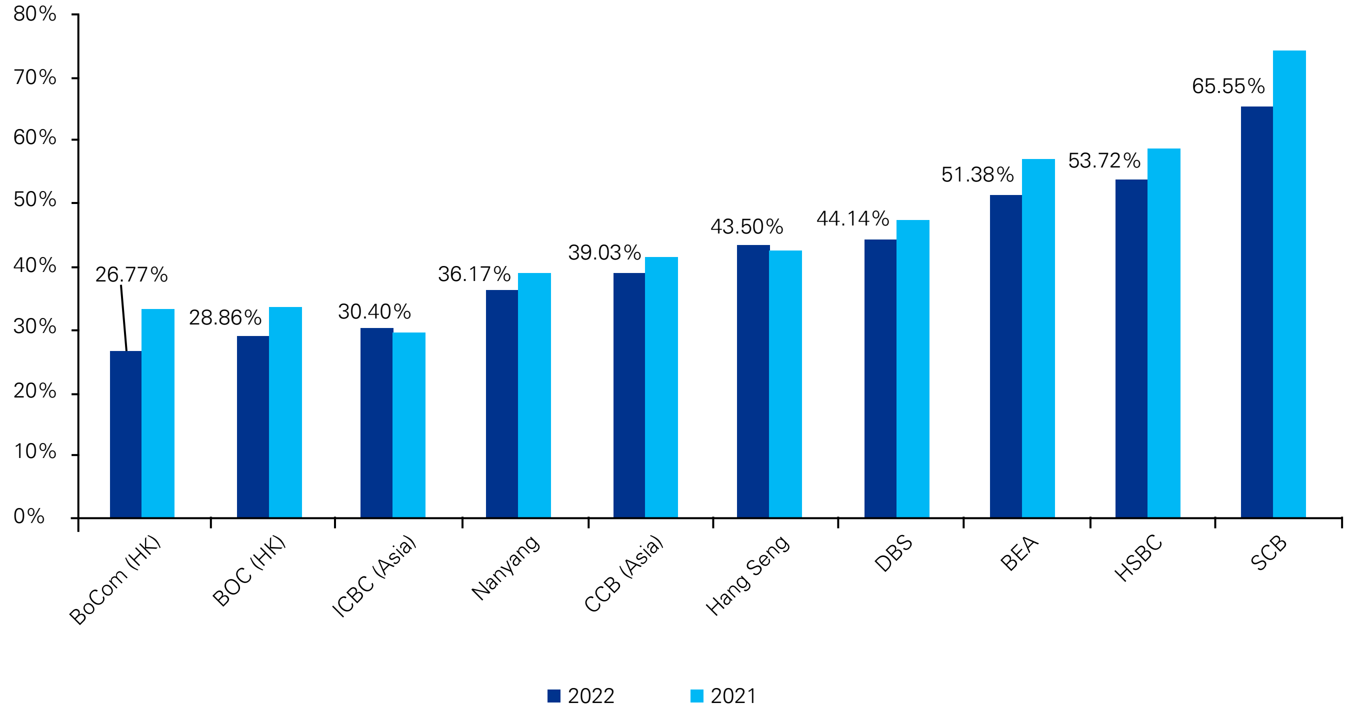
In our view, the higher interest environment is, in general, positive for the banks. While future US interest rate movements are subject to a host of uncertainties, there is a view that there will be at most one or two more rate hikes in 2023.

Hong Kong banks, particularly major banks with larger current and savings account (CASA) balances, have benefited from rising interest rates. However, one notable feature of 2022 is that as interest rates increased, funds flowed out of CASA accounts to seek yield. CASA accounts contributed 47.8 percent of total deposits at the end of 2022 compared to 61.5 percent at the end of 2021. Going forward, we can expect more competition on pricing for customer deposits.

[6] DBS Annual Report 2022, p.6, 8 https://vpr.hkma.gov.hk/statics/assets/doc/100034/ar_22/ar_22_eng.pdf
[7] Hang Seng Annual Report 2022, p.37 https://vpr.hkma.gov.hk/statics/assets/doc/100057/ar_22/ar_22_eng.pdf
[8] HSBC Annual Report 2022, p.18 https://vpr.hkma.gov.hk/statics/assets/doc/100002/ar_22/ar_22_eng.pdf

Costs

Cost-to-income ratios



Source: Extracted from individual banks' financial and public statements

Under inflationary pressure, cost management remained an essential focus for banks in Hong Kong to improve profitability. There was some positive news in this area as the cost-to-income ratio for the surveyed banks on average decreased by 4.8 percentage points for the year ended 2022 to 49.4 percent. This was driven by a 12.6 percent increase in operating income, partly offset by a 2.9 percent increase in operating expenses to HK$215 billion for the year ended 2022. Compared to the increase in operating expenses of 8.8 percent from 2020 to 2021, we can see that banks have been focusing on the cost management.

While Hong Kong's domestic economic activities gradually revived alongside the generally stable local pandemic situation in the second part of 2022, the increase in total staff costs of the surveyed banks moderated, with a slight increase of 1.1 percent in 2022 comparing to the 8.1 percent increase in 2021.

The top 10 surveyed banks showed a 13.2 percent increase in total operating income, combined with a 2.4 percent increase in total operating expenses. The weighted-average cost-to-income ratio of the top 10 banks improved from 49.5 percent in 2021 to 45.2 percent in 2022.

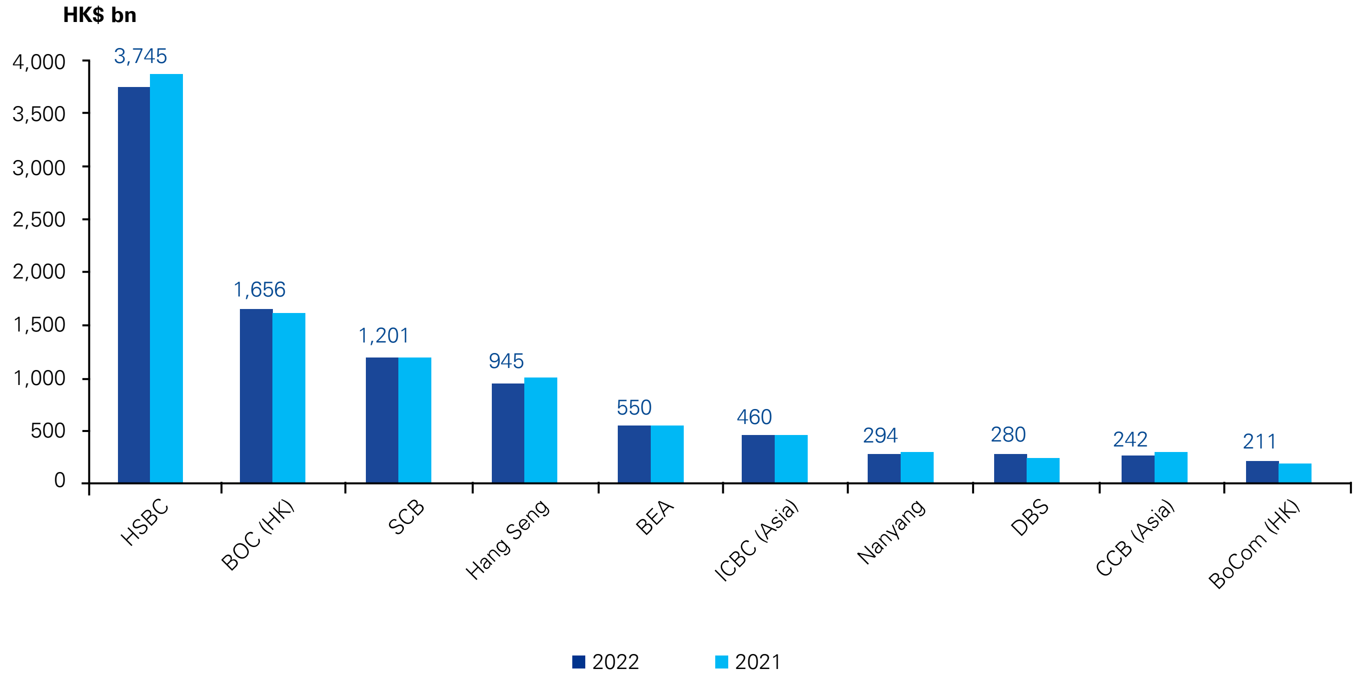
Bank of Communications (Hong Kong) Limited (BoCom (HK)) and Standard Chartered Bank (Hong Kong) Limited (SCB) recorded the lowest and highest cost-to-income ratios, respectively. ICBC (Asia) and Hang Seng were the only two of the top 10 surveyed banks to record an increase in cost-to-income ratio. ICBC (Asia) increased its cost-to-income ratio from 29.5 percent in 2021 to 30.4 percent in 2022. This increase was mainly attributed to lower total operating income resulting from a 16.0 percent decrease in net fee and commission income and slightly higher operating expenses resulting from a 1.4 percent increase in staff costs and 1.9 percent increase in other administrative expenses[9].

Hang Seng increased its cost-to-income ratio from 42.6 percent in 2021 to 43.5 percent in 2022. The increase was mainly attributed to lower total operating income resulting from a 22.9 percent decrease in net fee and commission income and 109.9 percent decrease in net income from financial instruments measured at fair value through profit or loss. The increase in ratio was also contributed by the 4.6 percent increase in other operating expenses, mainly related to IT and staff costs[10].

SCB recorded the largest decrease in cost-to-income ratio among the top 10 banks – from 74.3 percent in 2021 to 65.6 percent in 2022, however, it remained the only bank with a cost-to-income ratio exceeding 60 percent. The reduced cost-to-income ratio was attributed to the 8.1 percent growth in operating income, partly offset by a notable decrease of 4.7 percent in operating expenses, which was driven by a sizable decrease in staff costs of 9.7 percent due to the decrease in redundancy costs[11].

Loans and advances

Loans



Source: Extracted from individual banks' financial and public statements

[9] ICBC (Asia) Annual Report 2022, p.101 https://vpr.hkma.gov.hk/statics/assets/doc/100077/ar_22/ar_22.pdf
[10] Hang Seng Annual Report 2022, p.178 https://vpr.hkma.gov.hk/statics/assets/doc/100057/ar_22/ar_22_eng.pdf
[11] SCB Annual Report 2022, p.12 https://vpr.hkma.gov.hk/statics/assets/doc/100269/ar_22/ar_22_eng.pdf

Total loans and advances of all surveyed banks decreased modestly by 0.6 percent to HK$10,052 billion at year end 2022, after seeing growth of 6.6 percent in 2021, reflecting lower loan demand amid the uncertain environment. Commercial loans, mortgage lending and loans for use outside Hong Kong continued to make up most of the loans portfolio, representing 89.5 percent of total loans, a slight increase from 88.7 percent in 2021. Loans for use outside Hong Kong and commercial loans continue to be the two largest types 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 49.1 percent of total loans of all surveyed banks as at 31 December 2022.

Among the top 10 surveyed banks, gross loans and advances decreased by 0.8 percent to HK$8,671 billion, after an increase of 5.7 percent in 2021. Seven out of the top 10 surveyed banks recorded a reduction in their loan portfolio.

China Construction Bank (Asia) Corporation Limited (CCB (Asia)) experienced the greatest relative contraction in loan balances, from HK$303 billion to HK$274 billion in 2022. The decrease was mainly driven by the contraction of property development lending, transport and transport equipment lending, and trade finance[12].

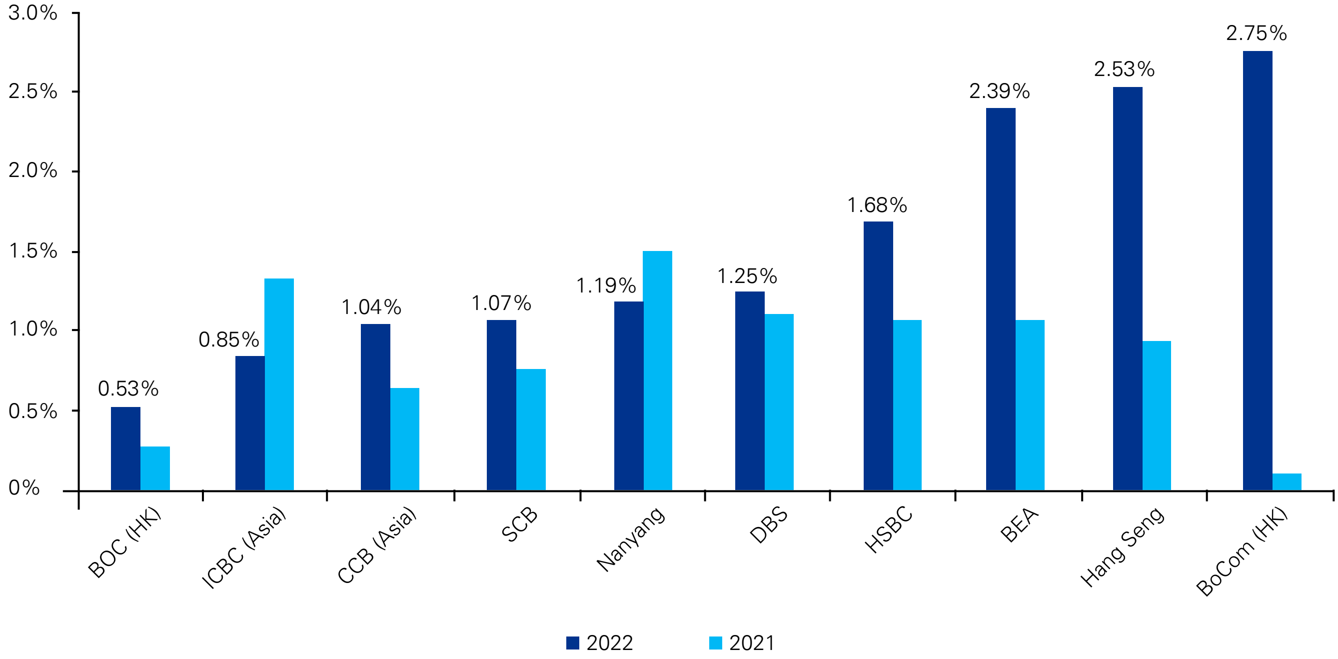
After experiencing loan contraction in 2019, DBS has grown in the last three years and showed the largest percentage growth in 2022. The gross loans of DBS increased notably from HK$158 billion in 2019 to HK$280 billion in 2022, representing a 77.2 percent increment from 2019. The increase was mainly due to building and construction loan usage in both 2021 and 2022[13].

HSBC's gross loans and advances, which cover its Asia Pacific operations, decreased by 3.3 percent to HK$3,745 billion[14]. The overall loan balances for HSBC's Hong Kong operations remained stable with a decrease in trade finance and industrial, commercial and financial lending, partly offset by an increase in residential mortgages. BOC (HK)'s gross loans and advances increased by 3.2 percent to HK$1,656 billion, which was mainly driven by the growth in both property development lending and residential mortgage loans[15].

[12] CCB (Asia) Annual Report 2022, p.90 https://vpr.hkma.gov.hk/statics/assets/doc/100015/ar_22/ar_22_eng.pdf
[13] DBS Annual Report 2022, p.28 https://vpr.hkma.gov.hk/statics/assets/doc/100034/ar_22/ar_22_eng.pdf
[14] HSBC Annual Report and Accounts 2022, p.106 https://vpr.hkma.gov.hk/statics/assets/doc/100002/ar_22/ar_22_eng.pdf
[15] BOC Hong Kong (Holdings) Limited Annual Report 2022, p.280 https://vpr.hkma.gov.hk/statics/assets/doc/100072/ar_22/ar_22.pdf

Credit quality

Impaired loan ratio



Source: Extracted from individual banks' financial and public statements

Amid the challenging economic environment in 2022 coupled with the fifth wave of Covid and the China property market downturn, the credit quality of the Hong Kong banking sector deteriorated moderately. The impaired loan ratio[16] for all surveyed banks increased from 0.85 percent to 1.36 percent and the impaired loan ratio for the top 10 banks also increased from 0.87 percent to 1.35 percent.

For the top 10 surveyed banks, BOC (HK) and BoCom (HK) recorded the lowest and highest impaired loan ratio in 2022, respectively. BOC (HK) had the lowest impaired loan ratio of 0.53 percent in 2022, up from 0.27 percent in 2021. The impaired loan ratio of BoCom (HK) increased from 0.11 percent in 2021 to 2.75 percent in 2022, being the largest increase among the top 10 surveyed banks during 2022. The increase was largely driven by the increase in impaired loans in relation to the property development and investment sector[17].

ICBC (Asia) and Nanyang Commercial Bank, Limited showed an improvement, with their impaired loan ratio reducing by 48 and 31 basis points respectively. These reductions were mainly attributed to several write-offs of impaired assets during 2022.

[16] Impaired loan ratio is calculated as impaired loans and advances divided by gross loans and advances to customers.
[17] BoCom (HK) 2022 Regulatory Disclosure Statement, p.39 https://vpr.hkma.gov.hk/statics/assets/doc/100320/fd_int/fd_int_1222_eng.pdf

In 2022, the Chinese authorities introduced comprehensive policy support, which aimed to stabilise the China property market through mitigating the developers' liquidity issues, securing the delivery of pre-sold housing projects, and providing support on the demand side. For instance, the "Three-Arrows" policy and the "16-Point Plan" were introduced in the fourth quarter of 2022. Looking ahead, the recovery of the affected property developers will hinge largely on the China property market and the demand for housing. Banks will be under pressure with regards to the increasing impaired loan ratios, so we expect they will focus on managing and downsizing the current exposures, and will also continue to closely monitor the debt servicing ability of the borrowers.

On the retail side, many banks raised their Best Lending Rates three times and by 62.5 basis points in total from September to December 2022[18], which imposed an additional burden on the mortgage payments of borrowers. The aggregate value of residential mortgage loans in negative equity increased to HK$66,252 million in December 2022[19] compared with HK$126 million in December 2021[20]. These cases were mainly related to bank staff housing loans or residential mortgage loans under the Mortgage Insurance Programme, which generally have a higher loan-to-value ratio. However, the overall mortgage delinquency ratio increased from 0.04 percent in 2021[21] to 0.06 percent in 2022[22] and the risks relating to banks' residential mortgage loans remained slight.

Going forward, the stabilisation of the pandemic in Hong Kong and the Chinese Mainland should benefit the local economy and improve corporates' fundamentals. A key issue for banks to consider in 2023 is the extent and speed to which demand for housing in China returns and how the financial position of the real estate developers improves.

[18] Half-yearly Monetary and Financial Stability Report, March 2023, p.5 https://www.hkma.gov.hk/media/eng/publication-and-research/quarterly-bulletin/qb202303/E_Half-yearly_202303.pdf

[19] Residential mortgage loans in negative equity: End of December 2022 https://www.hkma.gov.hk/eng/news-and-media/press-releases/2023/01/20230131-8/

[20] Residential mortgage loans in negative equity: End of December 2021 https://www.hkma.gov.hk/eng/news-and-media/press-releases/2022/01/20220131-9/

[21] Residential Mortgage Survey Results for December 2021 https://www.hkma.gov.hk/eng/news-and-media/press-releases/2022/01/20220131-8/

[22] Residential Mortgage Survey Results for December 2022 https://www.hkma.gov.hk/eng/news-and-media/press-releases/2023/01/20230131-7/

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Virtual Banks Forge Path to Sustainability

Since the initial excitement surrounding their launch has subsided, Hong Kong's eight virtual banks have faced increasing competition from traditional banks, which continue to invest heavily in their digital banking capabilities as they strive to stay ahead of the curve. Virtual banks faced other challenges in 2022 as they navigated through economic uncertainties and the impact of Covid-19.

But despite these headwinds, in their second full year of operation most of the new virtual banks saw an improvement in financial performance with a reduction in losses before tax as they moved further along the path to sustainability. They also made efforts to finesse their brand identity and to seek opportunities in new areas, notably wealth management and insurance.

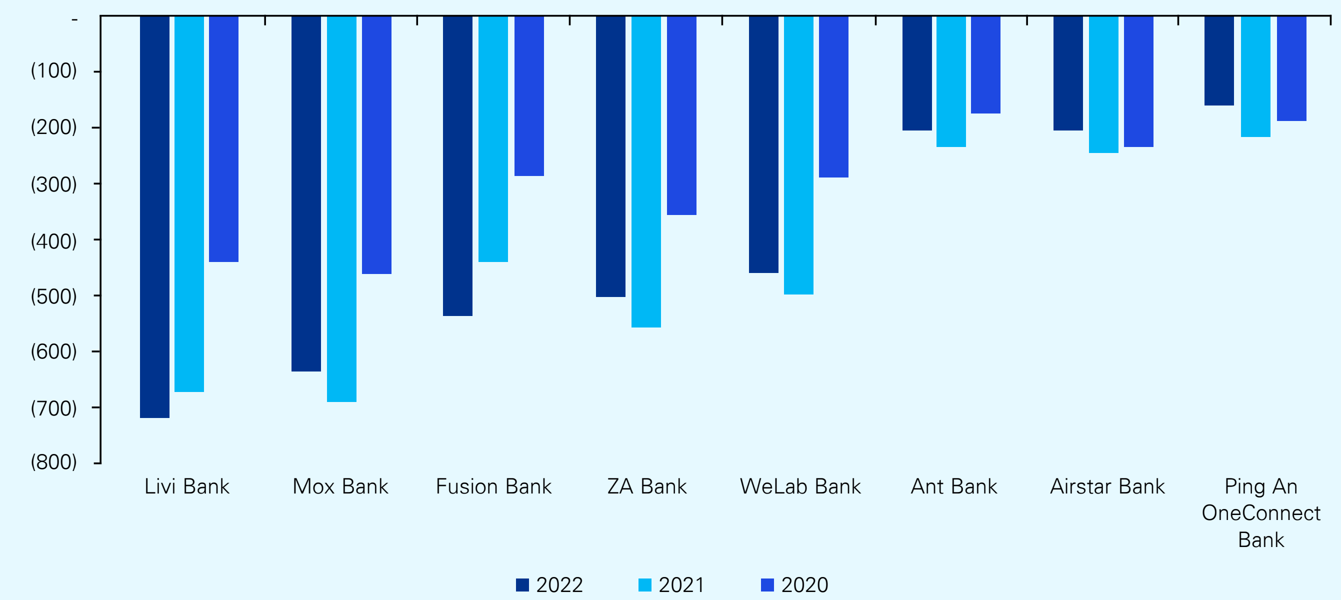
Virtual players will need to take note of fierce competition from traditional banks

Traditional banks have responded to the arrival of virtual banks in Hong Kong by amplifying their own digital transformation efforts to maintain their position as the preferred choice of banking service provider. In particular, they are aiming at capturing the younger, affluent and digitally savvy demographic, and some traditional banks have made significant progress in this area. For instance, HSBC's mobile banking application saw an increase of 90% in net growth of active millennial users compared to the previous year[23].

There has also been a growing trend of traditional banks focusing more on their digital footprint by merging, relocating and even closing some physical branches as customers' needs can increasingly be met via digital means[24].

In 2022, even amid market challenges, virtual banks continued to see growth in the number of accounts opened, reaching 1.7 million as of October 2022[25]. However, the growth rate was more muted than in 2021. The total number of accounts grew 42% from the fourth quarter of 2021 to the third quarter of 2022 (latest available data), as compared to 186% from the fourth quarter of 2020 to the fourth quarter of 2021.

Loss before tax (HKD'm)



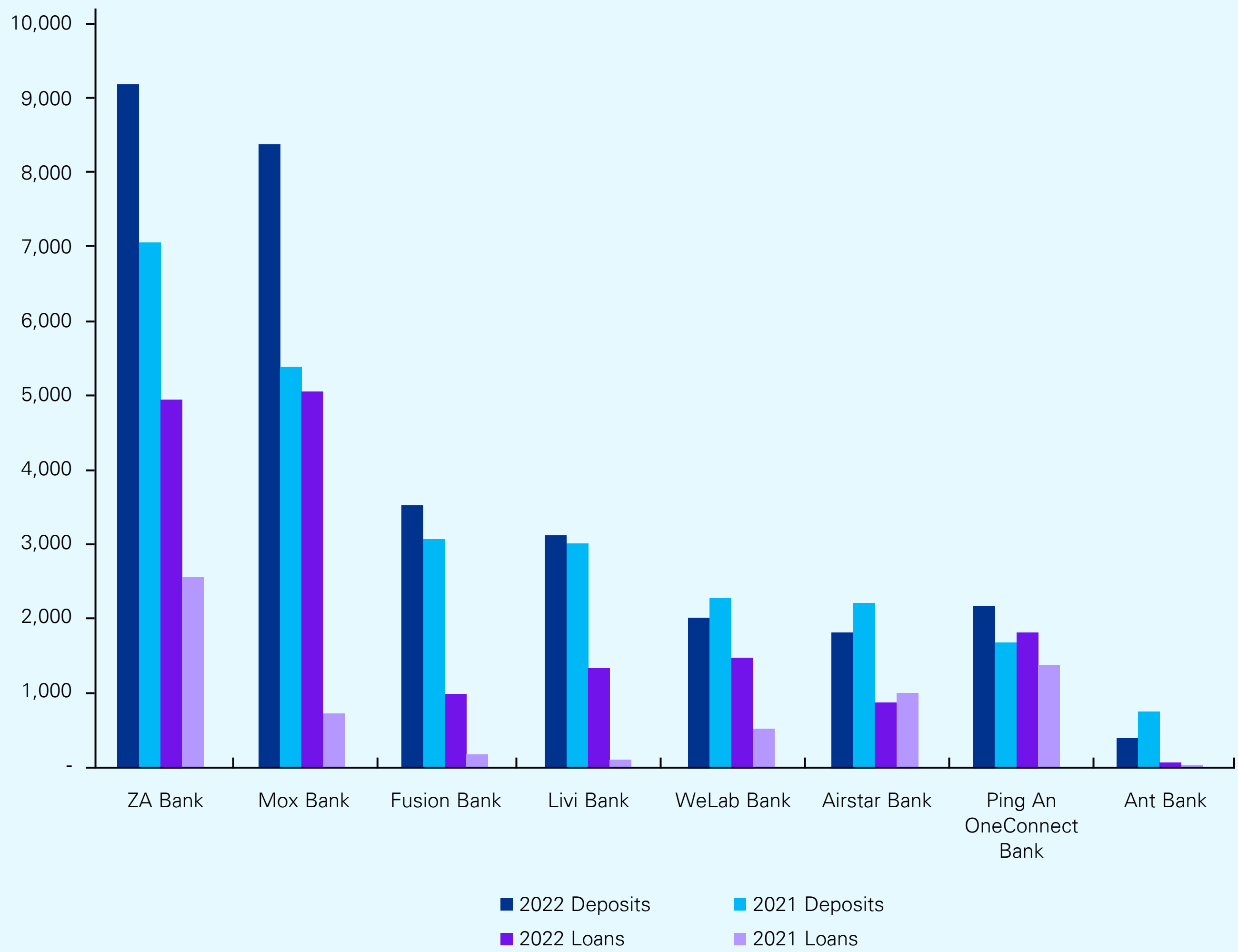
[23] South China Morning Post, 16 January 2023, https://www.scmp.com/presented/business/banking-finance/topics/smart-banking-millennials/article/3206222/traditional-bank-stands-gain-it-embraces-digital-needs-young-millennials-disrupting-industry
[24] Hong Kong Monetary Authority 19 April 2022, https://www.hkma.gov.hk/eng/news-and-media/insight/2022/04/20220419/
[25] Keynote Address, Hong Kong FinTech Week 2022, https://www.hkma.gov.hk/eng/news-and-media/speeches/2022/10/20221031-1/

In terms of financial performance in 2022, all virtual banks continued to report a loss before tax, albeit with slight improvements from the previous year's results for six out of eight virtual banks.

Ping An OneConnect Bank and Airstar Bank had the best performance results relative to the other virtual banks, as indicated by the largest percentage decrease in loss before tax compared to 2021 (27% and 18% respectively), while also reporting the smallest loss before tax in absolute terms. This better performance was notably driven by their higher net interest margins.

The total combined gross loans offered by the virtual banks increased significantly from HK$6 billion in December 2021 to HK$16 billion in December 2022, as all virtual banks deployed more deposits into lending, evidenced by a higher overall loan-to-deposit ratio of 54% compared to 25% in the previous year.

Loans and Deposits (HKD'm)



Note: The percentages show the loan-to-deposit ratios

Nonetheless, higher loan sizes did not always correlate strongly to higher profitability during 2022. For instance, Ping An OneConnect Bank increased its loan-to-deposit ratio by 1 percentage point to 84% and saw a decrease in loss before tax of 27%, making it the best performer among the virtual banks. In stark contrast, Fusion Bank increased its loan-to-deposit ratio by 23 percentage points to 28%, but had an increase in loss before tax of 22%.

To improve profitability and become sustainable, virtual banks will need to factor in other parameters aligned with their individual cost optimisation strategies.

Except for ZA Bank and Mox Bank, which continued to grow their deposits substantially and deploy those into lending, the other six virtual banks experienced much slower, or even negative, growth in deposits in 2022. In some cases, however, this has been a strategic decision. Virtual banks are aware that unrestrained growth in deposits may adversely increase their cost of funds, so some have decided to limit deposits taken and to strike a balance adapted to their individual risk appetite.

All in all, as the Hong Kong banking landscape becomes ever more competitive, it is imperative for virtual banks to keep innovating and implement strategies to attract and retain customers if they are to become profitable. While in the short run some virtual banks may be able to benefit from parental support, they ultimately need a credible path to profitability. As such, we maintain our view that some virtual banks could quietly cease operations or consolidate their operations over the next few years.

Differentiation remains key to future development

Early success in market positioning

In 2022, most virtual banks made efforts to solidify their brand identity and market positioning.

ZA Bank, WeLab Bank, Mox Bank and Ant Bank primarily cater to the mass retail market through a range of new products and services such as credit card statement instalment programmes. Meanwhile, Airstar Bank and Ping An OneConnect Bank aim to capture a slice of the market for lending to small and medium-sized enterprises (SMEs), particularly those that may find it difficult to meet traditional lending requirements.

For instance, Ping An OneConnect Bank partnered with an e-commerce company to launch Trade-Connect Loan, which extends pre-approved loans of as much as HK$5 million, predominantly to export-import-oriented SMEs. Such loans can help to ease the financing needs of underserved or unserved smaller businesses in Hong Kong[26].

Moreover, ZA Bank, with the ambition of becoming the go-to bank for Web 3.0 crypto start-ups, has recently been pushing into transfers of crypto and fiat currencies by looking to offer token-to-fiat currency conversions with licensed exchanges[27]. ZA Bank has also been forging a path in international transfers. In partnership with a global technology company, it has become the first virtual bank in Hong Kong to offer international transfers with no foreign exchange mark-ups or hidden fees. This service was launched in November 2022[28].

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[26] S&P Global Market Intelligence, 27 June 2022, https://www.paob.com.hk/en/sme-lending.html
[27] ZA Bank, News Centre, https://bank.za.group/en/content/18ada6a7-38d2-4813-bc69-79b88bb98145
[28] ZA Bank, News Centre, https://bank.za.group/en/content/52983457-16bd-4fde-9f08-9c5df2266430

Venturing into wealth management and insurance

Virtual banks hope to venture into wealth management and insurance and capitalise on the rising trend of online distribution of such products and services. Younger customers in particular value the convenience of being able to conduct research and purchase investment and insurance products and services with a just few clicks. This is evidenced by the strong growth in the number of investment transactions and long-term insurance policies sold via digital channels in the past few years[29].

Fusion Bank, WeLab Bank and ZA Bank obtained the necessary licenses from the Securities and Futures Commission in 2022 to start offering wealth management products and services to customers, while Livi Bank followed suit in early 2023.

ZA Bank and Livi Bank were both granted the Insurance Agency License from the Insurance Authority to enable them to add fee-based insurance products and services to their range of offerings. More specifically, ZA Bank has collaborated with a fellow group company to offer health and life insurance products to customers[30], while Livi Bank has leveraged its existing partnerships and network of shareholders to launch home and travel insurance products[31].

While more investment and insurance licenses may be granted to virtual banks in 2023, they will also need to be wary of offering too many diverse products or services, which could risk confusing or diluting their brand identity.

The path to sustainability

In 2022, the eight virtual banks in Hong Kong continued to operate at a loss amid market uncertainties and strong competition from traditional banks. However, most virtual banks were able to improve their financial performance relative to the previous year.

To succeed in Hong Kong and turn their losses around, virtual banks will need to continue to be innovative and responsive to industry changes.

The key to achieving this is through asserting their brand identity and positioning, whether that would be in the mass retail market, SMEs lending segment or via new products. It remains crucial for virtual banks to define and communicate their value proposition to customers clearly in order to pave a path to sustainability.

[29] Hong Kong Monetary Authority 19 April 2022, https://www.hkma.gov.hk/eng/news-and-media/insight/2022/04/20220419/
[30] ZA Bank, https://insure.za.group/v2/en
[31] Livi Bank, Press Release, https://www.livibank.com/pdf/livi%20bank%20launches%20app-based%20Travel%20Now%20Insurance%20Plan%20that%20provides%20peace-of-mind%20for%20its%20Customers%20as%20they%20look%20to%20travel%20again.pdf

Financial performance

Chinese Real Estate

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Exposure to struggling property developers has helped to drive up expected credit losses at Hong Kong banks and highlighted the importance of good lending practice

Hong Kong banks generally performed well in 2022, with growth in total assets, net interest income and net profit after tax, compared to 2021. However, banks also saw a rise in expected credit losses (ECL) during the same period.

This uptick in ECL is primarily driven by the additional provisions against exposures to real estate developers in the Chinese Mainland. Many Chinese property developers have faced well-publicised financial struggles in the past few years, and more than 70 – mostly privately owned enterprises (POEs) – have defaulted. These developers are now engaged in various degrees of debt restructuring discussions with their creditors, which will take time to be worked out.

Background

China's real estate activities have grown rapidly since the late 1990s, and for the past ten years has made up approaching 30% of the nation's GDP. This is due to the confluence of several aspects, including the government's aim to provide housing and employment for its increasingly urbanised citizens, local governments' active sale of land as a primary source of income, developers' easy access to credit funding, and high investor demand to own Mainland property, all of which encouraged a very active real estate market.

Debt, including borrowing from banks, was used to fund much of this growth. Debt was directly borrowed by the developers onshore and off, but also end-buyers paid sizeable purchase deposits, also funded with mortgage loans from banks.

What went wrong was that the developers grew very big, very quickly and started to lose control of the finances. Money borrowed or received through purchase deposits for a particular project became fungible with other projects. The problems were further fuelled as a) people bought additional properties often as speculative investments, also funded by debt, and b) developers increasingly undertook higher risk projects in second and third tier cities where fundamental end-use demand did not exist.

So, what had been a sensible way to support economic growth got derailed – as has happened in so many other countries – because of bad management, speculation and excessive debt leverage.

Remedial action

The government recognised this problem around three years ago and introduced its "three red lines" – restrictions on leverage ratio, gearing ratio and cash ratio – to try to constrain the amount of debt that POEs were able to access. As a result, many POEs were unable to borrow more, and those that didn't have the cash to complete properties started to default.

Over the past year or so, defaulting developers have been engaging with their creditors, and in the last few months we've started to see restructuring terms being agreed. In theory, the offshore creditors should be included in the restructuring plans. However, the complexity of the groups, the structure of offshore borrowings, and the way the restructurings are being organised means that it is unlikely that offshore creditors will be repaid in full.

Hong Kong banks got into this situation by lending to the offshore holding companies (holdcos) of the real estate developers, which were based in Hong Kong, but often incorporated in offshore centres like Cayman, Bermuda, etc. However, the vast majority of operating businesses and development projects – sometimes hundreds of them – sat in the Chinese Mainland. Many developer groups are large and complex, with projects held by numerous individual subsidiaries, joint ventures or associates. The offshore holdcos are far distant from the cash-generating assets, with substantial debt owed by the individual project entities and by multiple priority debt hurdles owed by intermediate holding companies.

The Central Government's priority is understandably to complete the projects and deliver the property units to the end-buyers (mortgagors), and will help facilitate suitable additional finance to enable this to happen. Any surplus cash from each completed project will be first used to meet new and then existing debt obligations at the project level, and then will flow upstream to meet claims at each intermediate level and only then, if there are surplus funds available after addressing all the onshore stakeholders, will cash reach the offshore holdcos' creditors.

Although there is a strong drive from national and local government to get these projects completed, the authorities are not going to bailout the developers, nor the creditors. They will allow the process to be worked through, and it will take several years for these projects to be completed.

A few restructuring plans have been announced recently, including for the largest, Evergrande. Some industry analysts have commented that the plans are not really restructurings, they are more long-term deferments of the debt. In the case of Evergrande, creditors are offered one alternative of bullet payments out 10 to 12 years, with interest only capitalised.

The reality is that these long-term "rescheduling" plans will provide breathing space to enable projects to be finished, but are unlikely to be enough to create value and sufficient cash necessary to repay all the associated debt.

Complex loans and lessons learned

Banks in Hong Kong have exposure to real estate developers with the debts owed by their offshore holdcos. Often this unsecured debt has no direct claim on Mainland property projects. Material levels of ECL has been taken by banks, but the eventual outcome of "restructurings" and ultimate extent of debt repayment remains uncertain.

The key lesson for banks from China's real estate crisis is a reminder of the basic rules of lending: lend (have direct legal recourse) to the entity that legally owns the asset, where the cash will be generated to repay the loan. Over the past few years creditors have let this principle slip, and have accepted the "structural subordination" that goes with these offshore-onshore loans, putting themselves in a very difficult position once a company defaults. A decade and half of ultra-low interest rates, and an insatiable demand by clients to borrow explains this lapse. Weaknesses of structural subordination were exacerbated by creditors relying on "refinancing" as their primary source of repayment, a speculative assumption and one that should rarely be the basis of a credit approval.

The banking sector has seen similar issues before, such as the Mainland government "window companies" in Hong Kong in the late 1990s and Asian commodity companies in more recent years. The failure to avoid the same mistake this time, and more importantly the need to avoid it in the future, is something bank governance committees should reflect on.

Despite the material sums involved, and the long wait expected before certainty of loan recoveries will be clear, the China real estate crisis has not been hugely detrimental the Hong Kong banks involved. Hong Kong banks' profits may be dampened by any further need to raise ECL, but banks in Hong Kong are well capitalized so should comfortably absorb any residual negative impacts.

While the overall impact on Hong Kong banks may not be severe, the China real estate challenge provides useful reminders to risk governance committees that can be distilled into three areas:

1. Constantly ask, where is the next bubble? Actively identify material exposures to potential asset/market bubbles with high concentration and correlation risks and ensure the related risk appetite is reviewed, approved and effectively monitored.

2. Where an asset bubble is identified, ensure that counterparty underwriting standards and facility structuring requirements reflect the higher risk and keep the portfolio within risk appetite. In this connection, ensure:
   a. any cross-border exchange controls are complied with, and
   b. repayment does not solely rely on refinancing.

3. Confirm credit policies restrict any structural subordination of the bank's facility claims, with any exceptions requiring elevated risk governance approval

These long-term 'rescheduling' plans will provide breathing space to enable projects to be finished, but are unlikely to be enough to create value and sufficient cash necessary to repay all the associated debt.

Hong Kong as an IFC

Hong Kong as an IFC

Back to Business

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Now that the city has fully reopened, Hong Kong should seize the opportunity to strengthen its status as a global hub for finance

Hong Kong is well and truly back to business now that our borders have reopened and normal operations have resumed. However, the city still has some catching up to do in certain aspects after the extended period of Covid restrictions put us on the back foot compared to other jurisdictions.

In particular, we must ensure that the rest of the world knows that Hong Kong is back in business, and that our unique set of attractions as an IFC remains intact. There is no doubt that the Hong Kong brand has been tarnished over the past few years. But this doesn't mean that our reputation as a global financial hub has been irreparably damaged: with some hard work and polish, the city's sheen should soon return.

The government is aware of the challenges and has made the financial sector a key focus of its recovery efforts. One of its first "back in business" activities was the high-level banking summit hosted by Financial Secretary Paul Chan in November last year. The government has also rolled out a range of promotions to attract tourists, business travellers and investors back to the city, which will be essential for a full economic recovery.

Key advantages

Hong Kong's key advantages as an IFC remain solid. Our location at the heart of Asia and excellent connectivity are as important as ever, while our low and simple tax rate remains globally competitive. The city has a superb professional services ecosystem with world-class talent including lawyers, advisors and accountants. All of these are underpinned by the strong foundation of the rule of law, with the benefits of a common law system, independent judiciary, clean transparency index and trust in the core system.

In addition, our connections with the Chinese Mainland cannot be replicated by any other city. As the global trade and business landscape evolves, Hong Kong will continue to provide a crucial service as a bridge between the Mainland

and the rest of the world. This will involve helping Chinese companies seeking growth in new markets including Southeast Asia, the Middle East and Central Asia, as well as international corporates keen to explore the emerging onshore opportunities.

Hong Kong also benefits from cross-border ties in terms of product innovation. The Greater Bay Area is at the forefront of innovation in financial products and fintech, and China has some of the most innovative payment methods in the world. To date, these have mostly been applied in a closed payment loop, but Hong Kong could be the channel to test a more regional reach. China is also moving forward in Central Bank Digital Currencies, with development of the E-CNY.

Looking ahead, Hong Kong should also look to develop its own product innovations related to areas where the city is already strong. In ESG, for example, Hong Kong is doing well in green finance. But we should also see where we can contribute to the real economy – in energy, recycling, real estate and transport – and ensure that the financial services sector is helping these industries to become sustainability leaders.

In terms of emerging sectors, the Hong Kong government is making significant efforts to promote the city as a virtual assets hub, including through stronger regulations such as the new Virtual Assets Trading Platform licencing regime. This approach has already attracted the attention of the industry globally, and a strong virtual assets capability will provide another string to the city's bow as a broad-based financial hub.

Lifestyle and talent

Being a successful IFC is not just about the financial side, such as access to global corporates, innovative entrepreneurs and business leaders. It is also about being a world-class city in terms of lifestyle. Hong Kong offers a diverse and exciting range of leisure options for residents, from fine dining and street food to beaches and mountains. The city's extensive transport infrastructure means that all of these are easily accessible within a short journey.

The government has also been developing the city's cultural attractions, including the opening of the M+ gallery and Palace Museum as part of the West Kowloon Cultural District. These enhancements can have an impact beyond the tourism and culture sectors.

To be a successful financial centre, a city needs to be able to attract a wide range of global professionals, from the brightest new graduates to seasoned executives. Hong Kong must be able to compete with other locations in terms of culture, as well as schools, sports and community, to attract the best.

Hong Kong can offer all of these as part of our many attractions a global city. Right now, Hong Kong is enjoying an economic rebound driven by the border reopening and the end of Covid restrictions. This is perhaps a prime opportunity to spread the word and ensure that we can continue to attract the world-class talent needed to further strengthen our foundations as an IFC.

Hong Kong as an IFC

Tax Landscape

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In an increasingly complex global environment, Hong Kong's tax regime remains a key part of the city's advantages as an IFC

Hong Kong's low tax rate and simple tax regime has long been a cornerstone of the city's success as an IFC. This situation is likely to continue: in this year's Budget speech, Financial Secretary Paul Chan reiterated the government's commitment to supporting the financial services sector, including by ensuring that a competitive tax regime is in place.

However, there has been significant external pressure on the Hong Kong tax system. The local application of the OECD's BEPS 2.0 initiative, specifically Pillar 2, will see a 15% minimum corporate tax rate in Hong Kong in the next couple of years for the largest taxpayer groups. Under Hong Kong's current regime, in accordance with the territorial system and with exemptions from tax for capital gains and incentives or concessionary treatments for certain other income, many of the biggest banks have a tax rate of below 15%; when Pillar 2 comes in, they will likely need to pay a top-up.

But even after BEPS is introduced, Hong Kong will continue to offer tax advantages compared to many other jurisdictions, and banking groups along with other large corporates will continue to want to do business here.

Talent and capital

Talent and capital are key attributes of Hong Kong's place as an IFC, with tax an important enabler of both.

As a world-class city in terms of lifestyle as well as a global financial centre, Hong Kong attracts top-level banking specialists. These range from traders and relationship managers to specialised middle-office experts, while back-office functions are often managed from Hong Kong even if teams sit in other jurisdictions. Hong Kong's relatively low personal tax rates and exclusions for investment income remain attractive factors for individuals in the financial services sector.

The question then arises, how much of the income generated by traders and relationship managers in Hong Kong should be retained here and how much shared with the rest of the organisation? A similar question applies for operations: how are the costs of operations teams based in Hong Kong but serving regional branches being shared across the group?

The quantum, nature and form of remuneration paid to these individuals then comes in to play, with the very same attributes that are important to corporates also important for their employees.

Another key attribute of Hong Kong as a financial hub is the large capital market. When major banks raise capital, much of it is done centrally then downstreamed to the banks' operating subsidiaries. Banks need to identify the right time and place to raise funding, then figure out how to push the funding out to the group in the most tax effective and efficient manner. This includes ascertaining how much the subsidiary should be paying by way of funding costs for that capital that has been downstreamed.

Hong Kong's specific tax rules for regulatory capital securities provide a robust framework for the tax implications for funding raised in Hong Kong or downstreamed to and through Hong Kong.

Transfer pricing regime

Another tax-related way that the government supports Hong Kong as an IFC is through its guidelines relating to transfer pricing. While having profits flow to Hong Kong is a good thing for banks based here – and for the city more generally – the government wants to make sure that we have robust guidelines to ensure that costs and income are in the right place and to strengthen the city's position as a world-class financial centre.

Transfer pricing deals with how the income and costs in multinational businesses are divided up across the group appropriately. It is particularly important because Hong Kong is both a centre of excellence for senior bankers and a global or regional headquarters for a lot of banks and other multinational corporates, which generally provide support to affiliates in other jurisdictions. For example, traders in Hong Kong will support the generation of significant income and gains off a global platform. Equally, a bank's head or regional office in Hong Kong will incur costs, much of which will be used to support the regional business.

In Hong Kong, transfer pricing guidelines were put in place in 2018. These not only give clear guidance to banks operating in Hong Kong, but also ensure that they have the supporting evidence and documentation to demonstrate to tax authorities in Hong Kong and in other jurisdictions that income and costs are being recorded properly and in the right place.

Banks should make it a priority to ensure that they are following the transfer pricing guidelines and that they are being proactive in terms of preparing the required documentations and collating evidence for record purposes.

The guidelines in Hong Kong do create a compliance burden for banks, as well as additional costs such as fees for service providers. This cost and compliance must also be borne in advance of any queries from the tax authorities.

But once they receive audit requests, banks will appreciate the benefits of the head office in Hong Kong having robust processes. Some other jurisdictions have very rigorous audit procedures, so it is especially useful to have the transfer pricing documentation prepared ahead of any questions from the tax authorities.

The guidelines also demonstrate that Hong Kong has a transparent tax environment and a framework in place to ensure that procedures are being followed, which is important to our global standing as an IFC.

Shifting tax landscape

As a result of global and local regulatory changes, Hong Kong's tax rate is not quite so low and the regime is not quite as simple as it was in the past. OECD pressure means that refinements have been made to what had previously been a very straightforward Inland Revenue Ordinance, beside the increases to corporate tax rates that will come about under BEPS. The focus of the EU has also impacted the domestic tax landscape, albeit with corporate (as opposed to financial services) taxpayers more in their focus.

Another thing that has complicated matters is that Hong Kong has introduced certain incentives to encourage the development of the financial sector, in areas including corporate treasury centres, reinsurance, family offices, funds and other consolidations of wealth. Industry participants that want to take advantage of these incentives will need to ensure they are ready to tackle a certain amount of additional complexity and compliance requirements.

But while Hong Kong's tax system has become more complex in recent years, it is still very straightforward by global standards as well as having a relatively low tax rate as compared to most other jurisdictions.

So despite the recent changes, as an IFC, our tax environment remains very attractive to global and regional corporates and financial institutions.

In terms of Hong Kong as an IFC, it is worth noting that there is also a tax lever in attracting people to come to the city to work. Compared to other world-class financial cities, Hong Kong's income tax is relatively low, which will continue to be an attractive proposition for talent. Furthermore, Greater Bay Area cities have been introducing incentives to bring income tax in line with Hong Kong and to make it more attractive for Hong Kong-based talent to also work across the border.

While Hong Kong's tax system has become more complex in recent years, it is still very straightforward by global standards as well as having a relatively low tax rate as compared to most other jurisdictions.

Hong Kong as an IFC

Chinese Banks in Hong Kong

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Border reopening has revived cross-border financial activity, while Hong Kong branches are also serving as a connector for Chinese banks' overseas expansion plans

The reopening of the border between Hong Kong and the Chinese Mainland has been a major boost for Chinese banks based in the city, allowing the resumption of business travel and other essential cross-border activity – particularly with the Greater Bay Area (GBA).

It is expected that the GBA initiative – which aims to enhance connectivity between Hong Kong and Guangdong Province and Macau – will pick up pace again. Indeed, there has already been action on this front since the travel restrictions eased, with the introduction of a new scheme to allow more Hong Kong people to drive across the border into Guangdong.

Besides the resumption of physical links, there have been developments in online connectivity. Chinese banks have been working on digital wallets that can be used in all 11 GBA cities including Macau, which will support customers involved in cross-border business. There have also been inroads in other cross-border services, including mortgages for Hong Kong residents to buy property in Mainland cities.

In another recent development, Hong Kong residents can now open a Mainland bank account without needing to travel across the border or have a Mainland address. Under this pilot scheme, which is being run by Bank of China Hong Kong, customers will be able to link their account with mobile payment platforms in the GBA, making travel in the region more convenient.

The various "Connect" schemes that facilitate cross-border investment continue to be enhanced, while the physical reopening of the border is expected to drive a resurgence in demand this year. The new Swap Connect was launched in May, which enables investors to conduct RMB interest rate swap trading and clearing in the Chinese Mainland and Hong Kong. Also, enhancements to the Wealth Management Connect scheme have made it easier for investors in the Chinese Mainland to invest in southbound products.

> *The financial sector has been asking for enhancements to people flow and capital flow between Hong Kong and the Mainland, so it is a positive development to see that the programme of opening up has resumed now that Covid restrictions have eased.*

The financial sector has been asking for enhancements to people flow and capital flow between Hong Kong and the Mainland, so it is a positive development to see that the programme of opening up has resumed now that Covid restrictions have eased.

Enhancing the links across the GBA is a key policy of both the Central and Hong Kong governments, and Chinese banks have an important role to play across many aspects, including supporting Hong Kong as a financial hub for the nation, encouraging the development of the city's technology and innovative industries, and promoting the construction of major infrastructure projects such as the Northern Metropolis.

Looking more globally, Chinese banks in Hong Kong are also increasingly looking at overseas opportunities, especially in Southeast Asia. The banks are taking different approaches to this expansion exercise, with some converting into regional headquarters while others are collaborating with local branches. Some Chinese banks are also actively looking at other locations further afield, including countries in the Middle East and Central Asia that are part of the Belt and Road Initiative.

Hong Kong also serves as a training hub for talent for the Chinese banks' overseas operations as part of these plans to expand internationally.

Technology development

Although the Chinese Mainland is well-known for its advanced technology, especially in customer service and online access, Chinese banks in Hong Kong have often been seen as old-fashioned and offering relatively limited services. This is partly because their client base has largely been focused on Chinese corporates operating in Hong Kong.

However, Chinese banks are also interested in developing the retail market locally, so a number of them have been making efforts in brand building to develop a more modern look – including upgrading their physical branches as well as refreshing their websites – in a bid to improve their customer experience.

Attracting more local customers, especially young professionals, does present challenges for Chinese banks. Even though the parent banks are generally very advanced in mobile banking services, they cannot just copy these services as the Hong Kong market has a different customer base with different expectations. However, it is expected that Chinese banks in Hong Kong will continue to put more efforts into marketing and branding to boost their presence in the market.

In terms of using technology to offer better service to business customers, Chinese banks are active participants in the HKMA's Commercial Data Interchange platform, which was launched in 2022. This platform uses alternative forms of data to improve the speed and accuracy of decision making. It helps businesses to access credit, particularly SMEs that often struggle to access loans. The use of alternative data to support credit assessment and risk control is already very mature in the Chinese Mainland market, so Chinese banks in Hong Kong have been able to leverage the experience of their parent bank in this area.

Green opportunities

The Hong Kong government has been working hard to make the city a regional hub for sustainable finance, and the Central government has also ramped up its promotion of green finance in the last year or so. Both governments are keen to encourage investment in green technology and green energy, which will need funding support that banks can provide.

Chinese banks in Hong Kong are now working to build up their green finance framework and products including green deposits and loans. Internally, they have also been enhancing their sustainable efforts, such as setting up sub-committees under the board level to develop ESG frameworks in line with global practice.

In the Mainland, some Chinese banks have been at the forefront of innovation in green and sustainable financial products, and have already started to launch various innovative products in this area, such as personal carbon accounts. Backed by their domestic parent banks, the Hong Kong subsidiaries can leverage the experience and framework from the parent banks and can build competitive advantages in the following ways:

- using transition finance to help high-carbon industries transition to low carbon business in the GBA
- providing green investment and financing services for Chinese companies along the Belt and Road
- launching innovative carbon financial products and services in light of the progress of Hong Kong's carbon trading market
- developing tokenized green bonds

However, there may be some challenges for Chinese banks in terms of adopting their products and services so they are suitable for the Hong Kong market.

One issue for banks and other businesses is uncertainty about what can be labelled as "green" or "sustainable". Hong Kong is currently working on a green taxonomy that will create a clear set of expectations. Chinese banks in Hong Kong are quite cautious in terms of regulatory requirements, but once the green taxonomy has been released this will likely give them more confidence to speed up their development of sustainable products and services.

Talent is an issue that is affecting Chinese banks in Hong Kong, including in the areas of ESG and IT, although the whole financial sector is facing manpower challenges in these areas. In sustainability, there is a general shortage of talent in the market with the relevant expertise.

For IT, although Chinese banks have struggled to find talent in Hong Kong, they have been able to draw on the high levels of tech talent in the Mainland, especially in Shenzhen. A number of Chinese banks have built up their technology capabilities in Shenzhen recently, due to the widespread availability of skilled staff.

Hong Kong as an IFC

China Economic Outlook

Kevin Kang
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Hong Kong set to benefit from the Chinese Mainland's economic recovery as well as tourism recovery in the city

The end of Covid restrictions is helping to drive an economic recovery in the Chinese Mainland as life gets back to normal for consumers and businesses alike. KPMG China's economists have forecast 5.7% GDP growth for 2023. This is a bit higher than the official government forecast of "around 5%", but has been supported by the higher-than-expected results for Q1 released in April. However, the Chinese economy is likely to face challenges in the year ahead, which could constrain the pace of its economic recovery.

The recent GDP growth is largely as a result of a strong rebound in domestic consumption, as consumer confidence has returned after three years of pandemic-related restrictions. Exports have also been a key driver of growth recently, including a 14.8% rise in March, which contributed to the strong Q1 figures.

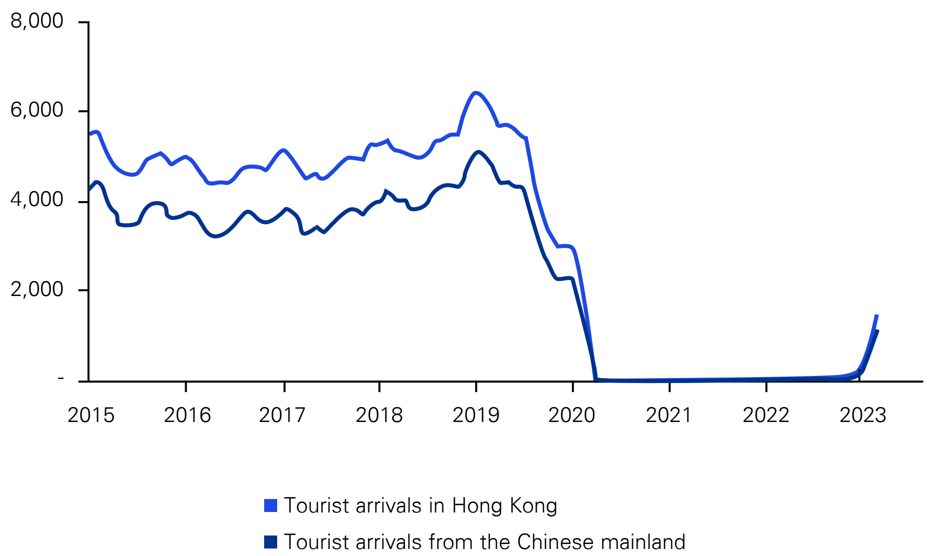
One explanation for the resilience in exports has been a shift in China's export structure. This has meant more exports to markets including ASEAN and the Middle East where economic performance has been more positive, and less reliance on economies like the US and EU. However, it is likely that exports will slow down in the second half of 2023 as the cooler global economic environment will have an impact.

Another headwind could be the Chinese real estate market, which has improved from the low base of 2022 but the momentum has weakened a bit in recent months. If it remains weak, this could become an issue, as the real estate market contributes significantly to China's overall GDP growth. In addition, external challenges could weigh on the global economy this year, including geopolitical tensions such as the ongoing conflict in Ukraine.

Hong Kong's recovery

Hong Kong has also rebounded after the border reopening, and KPMG has forecast economic growth for the city of 2.7% in 2023. Like the Chinese Mainland, the city has benefited from the end of Covid restrictions, which is evidenced by the tourism sector. Although the numbers have not yet returned to pre-pandemic levels, arrivals have recovered sharply and the upward trend seems set to continue.

Monthly tourist arrivals to Hong Kong, 3-month moving average, thousand people



Source: Wind, KPMG analysis

Hong Kong's economic prospects are also tied to its role as a key financial centre for the Mainland. As Hong Kong is an important investment and trade conduit for business going in and out of China, it will benefit from the economic recovery in the Mainland in the year ahead.

The Central Government has made clear that it will continue to support Hong Kong's role as an international financial centre as well as a financial hub for the nation. This commitment was reiterated in the report of the 20th National Congress of the Communist Party of China in October last year.

In practical terms, evidence of this support for Hong Kong's financial sector can be seen in the continuing enhancements to the cross-border investment schemes. In May this year, the interest rate Swap Connect scheme was launched, adding to the Stock, Bond and Wealth Management Connect schemes that have been launched since 2014 to deepen the connections between the Mainland and Hong Kong financial markets.

RMB internationalisation

An important part of Hong Kong's role as the financial hub for the nation is in RMB internationalisation. Hong Kong is the world's largest offshore RMB business hub, accounting for 73% of RMB international payment transactions. As the RMB is expected to play a bigger role in China's trade and finance in the future, this will provide further opportunities for the development and growth of Hong Kong's financial sector.

There has been significant growth in the use of the RMB in recent years, especially in global trade. According to the Standard Chartered Renminbi Globalisation Index, international use of the RMB grew by 26% during 2022[32]. This trend seems likely to continue. For example, in February, central banks in China and Brazil signed a memorandum to establish RMB clearing mechanism in Brazil, which should boost the usage of RMB in cross-border transactions between the two countries. As China is the largest exporter globally, it is aiming to leverage this leading position to encourage more trade settlement in RMB terms.

On the financial investment side of RMB internationalisation, however, growth has been fairly static recently after an initial strong period of growth around 10 years ago. From a Hong Kong perspective, the banking sector would like to see greater use of the RMB in fundraising, lending and investment. Hong Kong has the infrastructure and professional expertise in place, as it already provides these services for the Hong Kong dollar and a range of global currencies.

However, it is worth noting that currently the top priority of the Central Government is to balance economic growth with enhancing national security. The banking sector in Hong Kong would welcome more clarity and a roadmap on the development of RMB internationalisation in financial services, which would also give global investors more confidence about investing in Hong Kong.

Cautious optimism for 2023

Looking forward, there are plenty of reasons to be confident about the continued improvement in the Chinese Mainland and Hong Kong economies. It is probably too early to be overly optimistic given that both economies are still recovering from the pandemic and will face external economic challenges in the year ahead. But Hong Kong's returning tourists and other rebounding sectors will boost the local economy and drive confidence, while the city's unique role in China's financial system will support the city's recovery throughout 2023 and beyond.

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[32] https://research.sc.com/rgi-dashboard/

Growth opportunities

Growth opportunities

ESG

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Banks can act as agents for change with three priorities for strategic competitiveness, sustainability and future profit growth

As an international finance centre, Hong Kong has committed to advancing its position as a leader in ESG and green and sustainable finance. Regulatory efforts to support the banking sector have focused on laying a solid foundation by building capacity, developing policy and providing resources (such as data and analytics) and practical guidance.

At the same time, banks in Hong Kong have made progress in understanding the climate-related risks in their portfolio, and the financial implications. They have set climate strategies and taken steps to improve the quality of their climate-related disclosures. Some banks have committed to intermediate (2030 or sooner) and long-term (2050 or sooner) emission reduction targets, in respect of their own operations as well as their lending and on-balance sheet investment activities.

In a related move, banks have also been taking steps to acquaint clients with green and sustainable finance products to help them reduce their own carbon emissions.

With many clients in the real economy only starting to understand their climate and transition related risks, the availability of complete, accurate and reliable information is a concern for many banks. Greenwashing risks and regulatory and public scrutiny often deter banks from taking more progressive action. The HKEX's proposals to mandate climate related disclosures aligned with ISSB standards[33] by 2025 is a welcome development. This will not only pave a path to greater transparency, reliability and comparability globally, but also greater accountability. For banks, this means accountability in their role as agents for change for their stakeholders, including real economy clients.

Within this role, there are three priorities where the banking sector should take a lead: proactive client engagement, collaboration and partnerships with service providers, and becoming a guardian of data.

[33] The International Sustainability Standards Board (ISSB) Climate Standards that builds on the principles of the Task Force on Climate related Financial Disclosures (TCFD) recommendations and sets out detailed climate disclosures

Proactive engagement with clients brings competitive advantages

Many have likened the booming development of ESG and sustainability to the digital developments in the banking sector in the middle of the last decade. Banks transitioned from a paper-based account opening process that took an average of six weeks to complete, to a fully digital onboarding process that takes around five minutes. This has increased customer loyalty, and has been key to cost reduction.

The transition to ESG is creating opportunities for banks, but there are also hurdles. Most banks acknowledge the role they can play in directing finance to projects that deliver a positive environmental or social outcome and help their clients transition to sustainability. However, when it comes to engagement with clients, client-facing staff often do not feel equipped to proactively initiate this contact.

Providing role-based training to client-facing staff that positions them to critically diagnose their clients' needs and opportunities is a good starting point. Such training should be integrated with the workflow of the role, allowing for continuous practical application. Client-facing staff should be equipped to provide insights and data to drive client conversations, identify strategic opportunities and explain how the bank can finance the client's sustainability objectives.

A good way for client-facing staff to engage with their clients is by providing insight on sector trends and how their clients are performing compared with their peers. A good source for this information may be within the bank's own transition plan, which will include sector-specific carbon reduction goals and granular sectoral transition plans; as well as transition plans of their clients.

Proactive early engagement with clients is necessary to ensure the bank is well-positioned to reap the benefits. Other than customer loyalty, early studies indicate that financial performance will start to differentiate between pioneers, followers and laggards as early as 2030. By 2050, pioneers will see profit growth between 25%-30%, whereas followers are at 5-10% and laggards are at -10-20%[34].

Collaboration and partnerships with service providers

Collaboration with service providers across sectors and jurisdictions is crucial in the fight against climate change. Working together is no longer optional, it is an imperative. However, few banks are leveraging their existing relationships due to the way programmes are generally set up.

Service providers are managed from the perspective of third party risk and compliance with regulations. When it comes to addressing pressing economic, social and environmental pressures that affect businesses globally, this approach excludes them as potential candidates for collaboration.

But what if service provider relationships were not managed as a risk, but engaged with as a business proposition? This could open up new collaboration opportunities and a mutually beneficial relationship. Some questions that banks can ask include:

- **Sustainability data –** which service providers might be able to augment climate-related or sustainability-related datasets based on the clients they serve and the nature of service they provide?

[34] Bain & Company identifies "pioneer strategy" that could deliver profit growth of 25-30% for banks that accelerate transition to net-zero carbon emissions by 2050 | Bain & Company

- **Network –** which service providers could enable the bank to grow its formal and informal networks and scale the delivery of sustainable finance solutions? For instance, which service providers have access to industry associations or government departments, or otherwise have influence within their sector?
- **Technology –** are there service providers that provide an effective technological solution in one area of the business that can be leveraged for sustainability goals? Which service provider's solutions will optimise customer loyalty to the bank's sustainability brand?
- **Knowledge and capability development –** which service providers are able to provide technical expertise which can be leveraged to provide the banks' customers with support on sustainability?

Critically, to get more value out of relationships with service providers, a starting point is to see them as potential candidate partners with whom banks have a shared goal on sustainability, and a shared intent to co-create solutions for pressing ESG problems.

Becoming a guardian of data

Data is already crucial to ESG and will play a more prominent role in the future as everything from risk management, performance measurement and reporting is dependent on the availability of good quality data. Banks will also need to ensure they have reliable data to meet regulatory obligations. This is especially pertinent where data transparency will be driven by assurance requirements.

Banks are faced with a number of ESG data challenges. The issues include whether the data that is currently available is sufficient to fulfil disclosure needs, not only in relation to support the basis for disclosures made, but also in relation to Scope 3 emissions and scenario analysis. More scrutiny is expected on whether data sourced is accurate, credible and at the level of granularity needed. There are also questions about the consistency, transparency and auditability of the data based on which decisions are made.

Where there are known gaps and limitations in data, banks should proactively manage expectations of both internal as well as external stakeholders. They should be transparent about data limitations and/or uncertainties associated with the data and the potential impact these limitations could have, and should communicate the consequences clearly.

From a data governance and data management perspective, banks should ensure ESG-related data is handled appropriately, in compliance with relevant laws and regulations, and commensurate with the levels of risk associated with the data, and monitored with the same rigor as conventional financial data. They should also review if the data quality standards and control measures are adequate; and continuously review and update processes and standards in line with the latest regulatory requirements.

Banks should also review and make sure that they fully understand their data sourcing and data ingestion methodologies and traceability measures. This will provide guidance in identifying required KPIs and metrics. It will also enable them to evaluate ESG policies and management systems, and deploy more advanced analytics to support the generation of better quality insights.

Growth opportunities

Climate Risk Management

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Besides fulfilling regulatory expectations, banks are embedding climate risk management practices across different areas and taking the opportunity to drive value

Banks across the Asia Pacific are in the process of implementing the latest measures to systematically manage climate-related risks in their business models. They are aligning their practices with expectations on climate and environmental risks, led by regulators from Hong Kong and other jurisdictions including the Chinese Mainland, Singapore and Australia. Adoption progress varies across the region and size of institutions.

Regional regulators have released climate-related guidance, and in some cases, conducted pilot climate risk stress test (CRST) exercises. As part of sector-wide capability-building efforts to enhance climate resilience, regulators have continued to promote the adoption of effective tools such as scenario analysis and stress testing.

Banks in the region are responding to regulatory expectations through implementing climate risk management practices, developing quantitative analytical models and releasing climate risk disclosures. Leading banks are adopting more advanced initiatives to further embed climate risk into their risk management frameworks as well as business processes.

However, there are pockets of resistance throughout the region where climate risk mitigation has been put on the back burner as some economies deal with the post-pandemic recovery by pursuing resource-heavy economic growth. Banks are presented with the challenge of balancing risk appetite frameworks between prioritising growth versus climate resilience.

HKMA enhances climate risk stress testing framework

Following the HKMA's successful climate risk stress test pilot in 2021, banks in Hong Kong are now entering the second round of stress testing, which will run from June 2023 to June 2024. Drawing on the experience gained from the pilot and industry feedback, for the second round the HKMA has enhanced the CRST framework with a view to obtaining a more comprehensive assessment of authorized institutions' (AIs) exposures to climate risks, as well as strengthening their capabilities in managing them. The major enhancements are:

- **Scenarios –** a new five-year scenario has been introduced to assess the potential impacts on participating AIs arising from simultaneous economic and climate-related shocks. The new scenarios and the long-term scenarios developed by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) can complement each other to provide useful insights on the banking sector's climate resilience covering both the short term and longer term scenarios.

- **Assessment requirements –** apart from exposures to highly vulnerable to climate-related shocks (e.g. coal, oil and gas, cement, steel and chemicals) exposures that are usually considered less susceptible to climate change will also be covered.

- **Reporting standards –** more detailed reporting standards than in the pilot exercise have been developed for each of the scenarios.

As before, the stress testing includes variables directly related to climate change, like physical risk from rising sea levels and transition risk such as carbon prices. A new addition is that economic changes have been embedded. Banks will now have to merge their traditional macroeconomic variable-driven stress testing with the new climate change-related stress testing. This will not be a simple A+B exercise, and banks will need to build new models to merge these two different stress tests.

This is part of a general trend as central banks around the world are enhancing their scenarios to integrate variables from both the macroeconomic environment and climate change.

Banks should ensure that they understand the HKMA's framework and consider building – if they haven't done so yet – comprehensive approaches to assess the risk factors and metrics. These reporting standards are very specific, so a superficial assessment will not be sufficient.

The challenge for banks will be ensuring that they have the data systems and modelling capabilities to fulfil these enhanced requirements. Due to regulatory action and support over the past three years, some local banks have conducted a lot of work on climate risk, so are generally well prepared to move forward to the next level.

New physical risk assessment platform and green taxonomy

To help the banking sector to adapt to climate change, the HKMA is currently setting up a physical risk assessment online platform to support all the local AIs that come under the regulator's remit. All banks in Hong Kong will be able to leverage this platform to analyse their existing physical risk portfolio.

Regulators from non-banking financial sectors may also consider leveraging the HKMA platform to develop their own versions. The various financial regulators in Hong Kong work closely together as part of the same cross-agency working group to promote sustainable finance and collaborate on green initiatives that benefit the whole sector.

The new platform is also a significant development for Hong Kong, as HKMA is the first regulator globally to introduce such an initiative. It sends a positive signal about Hong Kong's capabilities in climate risk, and shows that the city is a proactive leader in green and sustainable finance.

In the future, banks in Hong Kong will also be able to draw on a green taxonomy. The HKMA, like many other jurisdictions, is working to develop its own set of standards. Once these are established, this will enable banks to classify their portfolios in terms of sustainability, and to identify which potential investments will trigger larger transition risk.

This taxonomy will create considerable financial reporting related impacts, but will also help banks to further demonstrate how they are managing their climate risk and their sustainability credentials.

Climate risk profiling and seizing opportunities

While banks have been carrying out climate risk stress testing and otherwise enhancing their green capabilities in response to regulatory requirements, it is not just a box-ticking exercise. There is also the opportunity for them to use the process to drive value and grow the business.

If banks can demonstrate that they are managing their risks well and that they have developed excellent climate risk management capabilities internally, this will give them greater bargaining power to win more business opportunities. They can also use their expertise to develop new products such as green loans, green bonds, and other green investment products, which are a growing area of interest among investors.

Banks in Hong Kong have generally made excellent progress in the past few years on climate risk. In addition to the climate risk stress testing, they have also had to fulfil other requirements, such as the submissions for the Task Force on Climate-related Financial Disclosures by mid-2023.

Besides keeping up to date with regulatory developments, banks have made considerable efforts to train their staff to understand the topic. Relationship managers and middle-office staff are therefore more able to collect the crucial information from the customers, especially those in high-emission industries. There has also been good progress in areas like KYC and due diligence. This enables staff to mitigate the potential transition risk, and also better assess their customers for credit approval and other services.

Credit approval revamp

Banks have also been embedding climate risk considerations throughout the credit approval process including climate rating, Equator Principles due diligence and pricing. This understanding of how to manage climate risk quantitively means that banks can help to drive change in the real economy. Skilled staff can effectively review their corporate customers' portfolios, and explain the impact if they do not become more sustainable. For example, high-polluting businesses will find it more difficult to access funding as they will face more stringent credit limits and higher credit interest. Already, greener businesses are able to access loans with more beneficial interest rates.

Some banks are exploring multiple avenues of embedding the financial implications of climate risk into business processes such as due diligence, underwriting, credit approval and annual reviews. These practices are exploratory in nature and expected to be fine-tuned over time. Ultimately, having a fuller understanding of the financial implications should then spur corporates to take action to remedy the situation and improve their sustainability standing.

Growth opportunities

Virtual Assets

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Regulatory developments in Hong Kong provide greater certainty for global investors while some cryptocurrencies recover in value after a tumultuous year

After a tumultuous 2022 for the virtual assets sector, the upheaval has continued into 2023 with the collapse of banks including Silvergate Bank and Signature Bank, key lenders to the crypto industry. At the same time, there have been some more positive signifiers, such as the recovery in value of some cryptocurrencies, and, in Hong Kong, proactive support from the government.

However, there is no doubt that the collapse Silvergate Bank and Signature Bank was a significant blow for the industry. One of the key services they provided was crypto on- and off-ramps – turning virtual assets into fiat money, and vice versa.

There is now a concern that if the major on- and off-ramps are closed and there are fewer providers, the costs of on- and off-ramps will continue to rise. There is also a risk that investors could get shut out from their investments if it becomes too difficult to exchange fiat and crypto.

Cryptocurrency recovery

Although the industry has seen a lot of turmoil in the past year -- including the collapse of crypto exchange FTX and stablecoin Luna in 2022, and the US Securities and Exchange Commission suing Coinbase and Binance in June 2023 – in certain aspects it has bounced back recently.

Some of the biggest cryptocurrencies have seen their values recover in 2023 after plunging last year. Ethereum has reached US$2,000, having dipped to below US$900 in 2022. Meanwhile, Bitcoin reached US$30,000 in mid-April for the first time since June last year, although it dropped back slightly to around US$26,000 by early June.

There are a number of reasons why this is happening. There is a theory among some crypto investors that Bitcoin acts like hard money such as gold, in contrast to fiat currencies – especially the US dollar where there are concerns about the US debt ceiling and printing money.

The demise of Credit Suisse and a number of US banks has also played a role in the revival of crypto, as it plays into a broader lack of trust in institutions among some investors, which was one of the key drivers of interest in cryptocurrencies in the first place.

A related trend has been towards alternatives to the US dollar. In particular, use of the RMB in international trade has grown in recent years, with Brazil and China's deal to use the RMB rather than the US dollar being a recent example. So, Bitcoin is also attracting attention due to its role as another alternative currency.

Ethereum's rising price is partly due to the recent transition to a full-featured proof-of-stake network. Investors are now able to withdraw their assets as and when they want, with limited liquidity risk and almost no execution risk, which had previously kept some investors at bay. It is anticipated that institutional investment will increase into ETH staking over time following these changes.

Regulatory developments and attracting investment

One of the biggest topics of discussion in the industry currently is the shifting and diverging global regulatory environment. In the US, for example, there has been a debate on whether to define a virtual asset as a security or a commodity, impacting who will be the regulator.

Hong Kong is among the jurisdictions that has moved towards more regulation, including a new licencing regime for centralised virtual asset trading platforms that trade non-security tokens, which came into effect on 1 June. The introduction of more regulations in Hong Kong and some other jurisdictions are providing more stability to a market that had previously been seen as not having much certainty.

The VATP regime has so far attracted companies from both the start-up and more traditional finance realms, in addition to the exchanges already based in the city. What remains to be seen is how many of these applications will be approved by the SFC, which will prioritise maintaining Hong Kong's reputation as a stable and reputable financial centre.

Certain virtual assets players, including some in decentralised finance (defi), are less keen to be based in a regulated jurisdiction. However, many others welcome the increased security of a well-regulated environment and a number of companies in the sector have moved to the city recently and indicated their intention to apply for a licence.

Besides crypto exchanges, other virtual assets businesses that have moved to Hong Kong recently include some that are interested in developing blockchain applications across the whole virtual assets ecosystem. Another benefit of Hong Kong being a well-regulated location for virtual assets is that global investors interested in the sector are likely to want to deploy their capital in a more stable jurisdiction.

Another good sign for the sector is that virtual asset companies in Hong Kong are continuing to attract investment. Start-ups that provide a link between digital assets and traditional finance are among those that have been successful in getting funding recently. One example is a platform that allows users to stake NFTs, which can then be collateralised against US dollars, Hong Kong dollars or cryptocurrencies. Another area attracting attention is payments, such as start-ups that are working with traditional credit cards to enable the use of digital currencies.

In contrast, virtual asset firms operating purely in the defi space are not getting as much traction at the minute.

Besides its efforts on the regulatory side, the Hong Kong government has been active in the market. Government officials including Financial Secretary Paul Chan, as well as senior executives from the SFC and HKMA, have spoken at industry events across the region about their plans to support Hong Kong as a hub for virtual assets.

Traditional banking impact

Many traditional financial institutions are interested in the virtual assets space to varying degrees, including decentralised finance. Some frontrunners are participating in proof-of-concept projects, such as issuing tokenised securities as a proof of concept. Others are paying close attention to the market but not actively getting involved. Then some are disconnected from the conversation altogether, at least from a leadership perspective.

However, major banks are not ignoring the sector and many are using blockchain technology as part of their internal processes and in areas including trade finance solutions. For example, a number of major banks have been working with a cross-border payments network that uses blockchain technology. Broadly speaking, banks in Hong Kong are making sure that they understand the technology and that they will be in a position to adopt it in the future.

Another good sign for the sector is that virtual asset companies in Hong Kong are continuing to attract investment. Start-ups that provide a link between digital assets and traditional finance are among those that have been successful in getting funding recently.

Growth opportunities

Wealth Management

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Policy changes, growing wealth across the region and new generations of investors are creating new opportunities for Hong Kong's wealth management sector

The wealth management market in Asia is presenting a significant growth opportunity for many banks in Hong Kong. This is being driven by a number of factors including the outlook for increased economic growth and wealth generation in the region, the fact that Asia is a relatively new wealth management market, and policy changes in Hong Kong and the Chinese Mainland that will support the continued development of the industry.

Over recent decades, there has been a significant level of emerging wealth in Asia, particularly in China, that was created by first-generation entrepreneurs and business owners. That wealth is now being passed down to the second and third generations. At the same time, the Chinese Mainland's GDP has grown significantly creating new first-generation wealth. All of this is creating more opportunities for the wealth management sector.

Mainland China market outlook

Given these developments, many Hong Kong banks have focused on the China market. Traditionally, this has been through the offshore model, where the bank and booking centre for the wealth management business is based in Hong Kong. The bank targets onshore clients who have capital assets in Hong Kong, and provides them with investment advice, access to a broad range of products and, for ultra-high-net-worth (UHNW) clients, access to estate planning and trust services.

The potential of China's wealth management sector is being shaped to a certain extent by policy developments. At the 20th Party Congress held in October last year, a number of themes emerged, including:

- Quality development – an increased focus on high-tech industries, real economy and science, which will drive more wealth generation
- Dual circulation – which includes opening up the China market to increased international trade and collaboration with foreign institutions, including foreign banks. In this context, Hong Kong is well positioned to play a role as a 'super connector'.

- Common prosperity – which aims to raise standards for those on lower incomes and increase the size of the middle class.

Another driver for wealth management is the shift away from traditional forms of investing. Historically, people in China have saved cash, invested in risky products or put their money in property. Real estate investment is likely to have a diminished role going forwards, partly because of the fall in values but also due to the China government's policy that "Property is for living in and not for speculation".

As household savings are redirected from property into financial investments, Chinese investors will need better wealth management services, especially as there is also an increasing emphasis on wealth preservation and succession planning. It is expected that investors will start to seek more holistic wealth-planning advice and portfolio construction capabilities, and will also look to have investment holdings that are more diversified, to spread their exposure to risk.

To play a part in the growing China market, foreign banks have been positioning themselves in two ways. One is the offshore model, as described above where the client's account may be booked in Hong Kong or Singapore, and another is the onshore model: over the last decade, a number of multinational banks have established securities entities and locally incorporated banks onshore so they can deliver private wealth management services in China. This has been a long process, and also a learning process for many of them, given that domestic wealth managers have much a larger customer base, distribution strength and a deeper understanding of onshore clients' needs. However, this long-term plan has started to pay off and foreign banks are now seeing more interest in their products and services.

Foreign banks with onshore presence seeking to seeking to capitalise on growth opportunities in the wealth management sector should ensure that they develop products and services that are relevant to customers' evolving needs, continue to broaden their distribution capability and continue to invest in their brand to increase recognition and differentiation in a high competitive market.

Hong Kong market outlook

Wealth managers based in Hong Kong are broadly optimistic about growth in the sector in the next few years. In last year's KPMG PWMA Hong Kong Private Wealth Management Report[35], 67% of survey respondents said that they expected to see annual growth of between 6% and 10% in the next five years, with 22% of respondents anticipating growth of between 11% and 20%.

Furthermore, the reopening of the border in early 2023 has been a very positive development. The long period of travel restrictions created significant pent-up demand, and now clients from the Chinese Mainland can come to Hong Kong to open accounts and explore other wealth management services.

The Hong Kong government has also introduced a number of policy incentives. These include the new family office tax regime, which provides a profits tax exemption for qualifying transactions in Hong Kong and encourages UHNW families to set up a family office in the city. These clients tend to have complex requirements including assets in multiple jurisdictions, succession planning and insurance needs.

Another incentive, announced in this year's Budget, are changes to the Capital Investment Entrant Scheme. This scheme allows individuals to gain residency in Hong Kong if they invest a certain amount in local assets, including equities listed in Hong Kong. Such programmes should attract more capital to Hong Kong, which will in turn drive the demand for wealth management services.

Private banks that plan to meet the demand of new family offices setting up in Hong Kong will need to ensure that they can provide the breadth of services that UHNW families will need in addition to wealth advisory capabilities including trust services and succession planning, wealth preservation and insurance solutions, access to a network of tax and legal advisors, and for selected clients the ability to meet their ESG related and philanthropic needs.

Themes and challenges

A number of other themes will shape Hong Kong's role as a hub for the wealth management sector.

Virtual assets will continue to be an interesting area, especially as Hong Kong has introduced more regulatory clarity, including licensing requirements to operate a virtual assets trading platform and clear rules around the sales and suitability obligations for wealth managers if they plan to provide their clients with access to virtual assets. It is early days for these types of assets in the private wealth management sector, but potentially an emerging trend over the next few years. Private wealth managers should gauge their clients' appetite for virtual assets, particularly UHNW clients who may be trading on virtual asset exchanges directly or gaining access via hedge fund investments, and explore building linkages with licensed exchanges in Hong Kong and updating suitability rules and portfolio advisory tools to accommodate this emerging asset class.

Over recent years wealth managers in Hong Kong have invested heavily in digital propositions. These have developed from simple propositions such as giving clients the ability to buy and sell equities and other products to providing clients with educational content, research and actionable investment ideas. Banks have also invested in AI to better understand clients' needs and interests, which is also giving relationship managers more information to enable them to have more insightful discussions with clients. Looking to the future, private wealth managers should start exploring the use cases for large language models and generative AI across the bank, whilst being mindful of the risks of this emerging technology, as it is likely to have a significant impact on client servicing, market and data analysis and risk management.

[35] KPMG PWMA Hong Kong Private Wealth Management Report 2022

While the Chinese Mainland will likely remain the key driver of Hong Kong's wealth management sector, the emerging wealth across the rest of Asia is also creating a growing middle class is providing a further and growing market. Associated with this segment is the growth of the robo-advisory landscape across Asia, which while still small in absolute terms has been growing steadily. Private wealth managers, particularly those with an affiliated asset management business, should assess if robo-advisory tools can be deployed to provide a lower cost distribution channel in developing markets.

Another theme that will impact the wealth market is the shifting demographics in the Chinese Mainland and across the rest of Asia as wealth passes down to the second and third generations. These younger generations have different requirements, especially when it comes to ESG and sustainable investing. Currently, there is a scarcity of products in this space to meet the rising interest, so there is an opportunity for Hong Kong wealth managers to differentiate themselves in terms of offering a range of ESG and sustainability products. Private wealth managers should seek to understand their clients' ESG perspectives, priorities and needs during client onboarding or during periodic portfolio reviews, have a robust product due diligence process supported by appropriate data feeds, and develop reporting tools and dashboards that allow customers to track the impact of their investment in terms of their specific ESG priorities.

Wealth managers in Hong Kong will also need to manage ongoing challenges. For example, there is pressure to increase efficiency and manage costs while also pursuing growth opportunities and increased revenue to maintain, and ideally reduce, the bank's cost-income-ratio. Additionally, scarcity of talent is likely to remain an issue for the foreseeable future as banks compete for experienced relationship managers and individuals with product and regulatory expertise. Private wealth managers will therefore need to continually look for opportunities to reduce variable and fixed costs, for example by consolidating support activities and infrastructure across booking centres and at the same time build an operating model, products and services suite. They should also create a corporate culture that will develop, attract and retain the best relationship managers and client-facing staff.

The next couple of years will be exciting times for the Hong Kong wealth management sector as competition intensifies, further opportunities in the Chinese Mainland emerge, new technologies become available, and wealth providers navigate the challenges and risks associated with operating in the sector.

Business Transformation

Business Transformation

Technology Risk and AI

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Generative AI can offer a range of benefits to banks in areas beyond customer service, but will also introduce new risk considerations

The rapid evolution of technology including artificial intelligence (AI) is enabling banks to continually refine their services to customers and improve the efficiency of their back-office operations. But with evolving technology comes evolving risk, and banks must ensure that they are protected as they roll out digitalisation programmes and adopt new tech.

One of the most high-profile developments recently has been generative AI, such as ChatGPT, which can create new content including text, images and videos in response to prompts. ChatGPT was only released to the public in November last year but has already attracted a huge amount of attention. Generative AI is more sophisticated in responding to requests than previously available AI technology and can be customised more easily. For banks, it has potential use cases in many areas including chatbots, marketing, AML and cybersecurity.

Banks in Hong Kong have already been using AI in their customer service chatbots. The more advanced AI that is emerging means that the chatbots will be able to answer more complicated questions and provide more precise and detailed answers. Banks in the United States and some other jurisdictions have already been using AI in various areas, and it has been estimated that this can reduce operational costs by as much as 40%.

Managing risk

With generative AI, from the technology risk perspective, one of the hot topics is the integration of responsible AI practices into AI adoption as new use cases are adopted.

For example, data privacy issues could arise in the conversations between customers and chatbots. The question is whether, and to what extent, these conversations will be used to train the AI models, and what that means for the customer's data privacy. More generally, banks must consider the risk implications as they increasingly incorporate AI in areas including customer communication and data analytics, as well as streamlining and automating their manual processes.

To use AI effectively while protecting against risk there are some key areas banks should be focusing on: data quality, transparency, compliance, cybersecurity and governance.

- **Governance and Oversight:** Proper governance and oversight are essential to ensure that AI systems are making decisions that align with the bank's values and goals.
- **Data quality:** Banks need to ensure that the AI data is reliable. AI systems are only as good as the data they are trained on, and poor quality data can lead to inaccurate predictions, which can have serious consequences.
- **Explainability and transparency:** AI models should be transparent, and aspects such as how the training algorithm works should be able to be explained, to build trust with stakeholders.
- **Compliance:** AI systems must comply with relevant regulations to avoid legal and financial consequences, including on data privacy.
- **Cybersecurity:** Robust cybersecurity protocols are needed to protect AI systems from cyber threats. Hackers could exploit vulnerabilities in AI systems to gain access to sensitive data or cause other damage.

The regulators and government in Hong Kong have been keeping track of technology developments and the risks involved, and have provided guidance to banks and other businesses.

The Office of the Government Chief Information Officer (OGCIO), Hong Kong SAR Government, has also released the Ethical Artificial Intelligence Framework, to provide guidance to businesses and sectors on key areas to consider when organising AI projects. These areas include, for example, privacy, safety and accountability, among others.

For banks, the HKMA issued a circular, titled High-level Principles on Artificial Intelligence, in 2019. The circular provides an overview of the key concerns around the use of AI and proposed solutions. These include areas such as board and senior management oversight on the AI applications, the required expertise, periodic reviews and ongoing monitoring, and contingency plans in case of any identified issues.

> *With evolving technology comes evolving risk, and banks must ensure that they are protected as they roll out digitalisation programmes and adopt new tech.*

Emerging use cases

While AI offers new opportunities and potential use cases in a number of areas beyond the chatbot, it is important to ensure that potential risks associated with its use are understood.

A new use case example is AI can identify unusual patterns in transactions that may be suspicious when reviewing fund transfers. Currently, AML involves a lot of manual handling and time spent dealing with exceptions. Reducing these exceptions through AI adoption, instead of pre-defined rule-sets, will help productivity and increase efficiency.

Another promising use case is robo-advisory in wealth management, which can provide advice to customers on reaching their wealth goals. This market has been expanding in recent years so it is a good time for banks to explore how AI can help create more product options for clients.

Regarding cybersecurity, banks are automating more of their processes, including how to use technology to respond to the threats automatically. In the future, AI might also be able to reduce the risk further by identifying hacker behaviour.

It is highly likely that AI and other emerging technologies will become even more important to banks across a variety of areas of operation in the next few years. Banks should be preparing now to ensure that they have the risk frameworks in place, as well as the right talent to support them as AI becomes even more critical to banking operations and services.

Business Transformation

Outsourcing

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Taking a strategic approach to using managed services can add value to banks, increase efficiency and improve user experience

As banks in Hong Kong have been returning to normal post pandemic, it seems that the benefits of outsourcing have become more widely accepted. With the threat largely passed, banks have had an opportunity to review the impact of disruption, consider how markets have changed and review their business models. For example, some have found inefficient cost structures, including large workforces that are no longer focused in the right areas for growth or with the right skills to take the business forward. Others that necessarily reduced investment during uncertain times have fallen behind, in particular in the area of technology and digital transformation.

At the same time, post-pandemic economic growth has been muted, while costs have remained high, so there is a clear incentive to find more efficient ways of working. Such pressure on banks' budgets ultimately reduces their ability to invest and innovate and could affect competitiveness over the longer term.

Outsourcing can save costs and improve efficiency and accelerate change, while also freeing up organisational talent to focus on the most important aspects of a business. A recent KPMG report that surveyed hundreds of executives globally across a range of sectors found that 75% of organisations planned to increase spending on managed services in the next two years.

Taking a strategic approach

While outsourcing can certainly reduce costs, the use of premium Managed Services can go much further helping add value to businesses, reduce risk and enhance outcomes. Banks that take a more strategic approach and work together with service providers that have deep subject matter expertise and transformation skills will be able to identify key challenges and find workable solutions amid an uncertain and rapidly evolving business environment.

Advisory Managed Services are focused on strategic and business outcomes, and can be used across a bank's operations, including in complex and confidential areas, such as risk compliance and regulatory reporting as well as potentially sensitive areas such as customer and supplier engagement. Services can be adapted to the business's changing needs and in response to market or regulatory conditions and can be scaled globally if required. This compares to a traditional view of outsourcing as business process outsourcing (BPO) model, which offers low-cost solutions for back-office or peripheral functions, often with limited technology and one-size-fits-all options.

Outsourcing has clear benefits in such technology transformation programmes, as automating processes reduces costs while also relieving pressure on manpower. Many banks and other large corporates have been carrying out major transformation projects in recent years and turning to strategic outsource service providers to deliver on those programmes. Banks that need to transform should consider how strategic outsourcing might help them in their journey and beyond in delivering sustainable outcomes.

Complex areas

Besides the more obvious 'traditional' areas for outsourcing such as IT Services, there is now growing appreciation in the banking sector that many other areas that were previously kept in-house can also be outsourced. These range from payroll, HR and tax compliance – including monthly returns, third-party risk management, regulatory returns and tax computations – to more directly regulated areas such as KYC and AML, and areas where having leading edge technology is increasingly important such as fraud risk monitoring.

Whistle blower services, a regulatory requirement for companies listed in Hong Kong, is another area that is often outsourced and this can be broadened to include an employee ethics reporting line. A trusted independent third party running such a service is seen as best practice and if an investigation is subsequently required, it can also be carried out by the outsourcing firm that has the relevant expertise.

75%

Proportion of organisations that plan to increase spending on managed services in the next two years, according to the KPMG report, Managed services: A new value proposition

As well as handling ongoing services, managed service providers may be a good choice for dealing with new developments, such as new regulatory demands. Rather than build the capability in-house from scratch, third party firms with the relevant expertise may be better placed to handle the relevant requirements. For example, the changing regulatory landscape around ESG reporting is a crucial topic that banks must keep on top of, but it is also an area where talent is scarce. So it may make sense to outsource aspects of ESG, such as assessments of borrowers or vendors to firms that have the sustainability experts and work with the right external data providers.

Besides deciding what areas to outsource, banks will also need to consider the different types of firms in the market, and consider which best suits their needs for particular projects. These include niche providers that focus on a particular specialism, as well as larger firms that offer a more holistic approach and can form a broader relationship with the bank across different business areas.

Measuring success

Once an outsourcing programme is up and running, there are different ways that banks can measure its success. Cost savings are the most obvious metric. But perhaps even more important is on the regulatory side. Managed advisory services enable banks to meet the changing regulatory requirements in all the jurisdictions where they operate where they may not have the business scale to cover the cost of compliance.

Customer satisfaction is another area that can be measured, and banks will be able to assess whether the changes that have been put in place through an outsourcing project have improved the experience of dealing with the bank for customers and vendors.

Talent is another crucial area where using advisory managed services can have a significant impact by offering a solution to the manpower shortage that has been a long-running problem not just for banks but also for many other sectors in Hong Kong. External service providers will have not only the technology and know-how in their particular area, but also the specialised and trained staff to more effectively carry out the work.

Besides the many benefits for the banks in terms of reducing pressures related to manpower shortages, the results of a successful outsourcing programme also has the additional advantage of improving employee satisfaction with their job and working environment.

> *While outsourcing can certainly reduce costs, the use of premium managed services can go much further helping add value to businesses, reduce risk and enhance outcomes.*

Business Transformation

China Data

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New laws on cross-border data transfer affecting foreign banks operating in the Chinese Mainland take effect

Cybersecurity and data protection have become standard practice for banks, but this does not mean that these topics have been put on the back burner. Banks must remain constantly vigilant against cyberattacks, while also staying up-to-date with the shifting regulatory landscapes in the jurisdictions where they operate.

In the Chinese Mainland, three significant laws have come into effect in recent years: the Cybersecurity Law, the Data Security Law, and the Personal Information Protection Law (PIPL). The most recent developments in this area are the Measures for the Security Assessment of Cross-Border Data Transfer, which came into effect in September last year and the Measures for the Standard Contract for the Outbound Transfer of Personal Information which will become effective this June. These two regulations implement the provisions of the three above-mentioned laws relating to cross-border data transfer.

Under these measures, banks and other businesses involved in cross-border data transfer will need to:

- assess whether they meet the threshold defined by the Cyberspace Administration of China (CAC), and
- choose an applicable path for managing cross-border data transfer activities.

They can either apply to CAC for approval if the threshold for the Security Assessment of Cross-Border Data Transfer is met, or file the signed Standard Contract and other relevant materials at CAC. The threshold includes businesses that transfer personal information (eg phone number or email address) of more than 100,000 individuals, or sensitive personal information (eg bank details or health records) of more than 10,000 individuals, since 1 January of the previous year.

The first step for banks that meet the threshold is to carry out a self-assessment, and make their submission to the CAC. As part of their application, banks need to explain why they need to transfer data out of the country. For global banks, the intrinsic nature of their business means that they are interconnected, and cross-border data transfer is essential for areas like AML and KYC. But the size and global nature of banks also mean that there are a wide range of potential cross-border data transfer scenarios that need to be covered, adding further complexity to their filings.

The deadline for applying for approval from CAC was in March 2023. Therefore, banks and businesses have already made their submissions and are now awaiting approval or other comments from the regulator.

Next steps for getting CAC approval on self assessment

So far, CAC has issued a small number of approvals. However, as the law applies to a wide range of businesses as well as banks, there has been a high volume of applications, so it will take some time for the regulator to review all of them. For very large and complex organisations that deal with a lot of data, such as global banks, it is likely that the process will be more time-consuming and will therefore take longer for the regulator to review each application.

Financial institutions must also undergo an additional step as part of the process, as the CAC needs to consult the National Administration of Financial Regulation (NAFR) before issuing approval. The NAFR is a new regulator that has replaced the China Banking and Insurance Regulatory Commission as part of the Central Government's recent changes to a number of regulatory bodies.

The CAC is currently working through the applications, and in some cases, it has given feedback to applicants and asked for further information and documentation. This means that banks have the opportunity to take remedial action and consult third-party experts to help fine-tune their applications.

It is possible that the regulator will grant conditional approval to some banks on the proviso that further conditions are met, such as remediating certain data-transfer scenarios. Once these conditions have been met, then approval will likely be granted.

While the new laws have introduced a significant change to how businesses operate in China with new compliance demands, banks may be in a better position than businesses from many other sectors. Financial institutions are very well regulated globally, so banks are generally accustomed to dealing with regulatory requirements. In addition, overseas banks with a presence in the Chinese Mainland will also be familiar with Chinese processes and expectations.

Companies from other sectors, such as hotels, retailers and taxi-hailing firms, that are also affected by the new cross-border data transfer rules, may find the process more difficult as it is a new experience for them.

Standard Contract

The Standard Contract applies to businesses that do not meet the threshold for the Cross-Border Data Transfer self-assessment for filing to the CAC, so it will likely affect some smaller and mid-sized foreign banks operating in China. It is also notable that the Standard Contract applies to cross-border data transfer of personal information, and when banks are submitting such contract to CAC, a Personal Information Protection Impact Assessment report is also required to be submitted.

Under this requirement, affected businesses will need to revise their data export processes in line with the regulator's expectations, and will also need to have a Standard Contract signed between their China local entity and the global group, which is the offshore data receiver. The deadline was on 1 June 2023, but there is also a six-month grace period to give businesses time to ensure they are in compliance with the measures.

The Standard Contract has many similarities to the GDPR in the EU, which global banks will already be familiar with. However, it also has some differences in terms of the scope and filing obligations. One of the key requirements is that it requires all entities to have the overseas recipient of data sign the Standard Contract. For foreign branches, this could be their regional headquarters. The Standard Contract is in Chinese, and as it is a government document, it cannot be modified, such as being translated, before being signed.

So the offshore signatories may need some assistance from external parties to ensure they fully understand the Standard Contract and how it affects their business before signing.

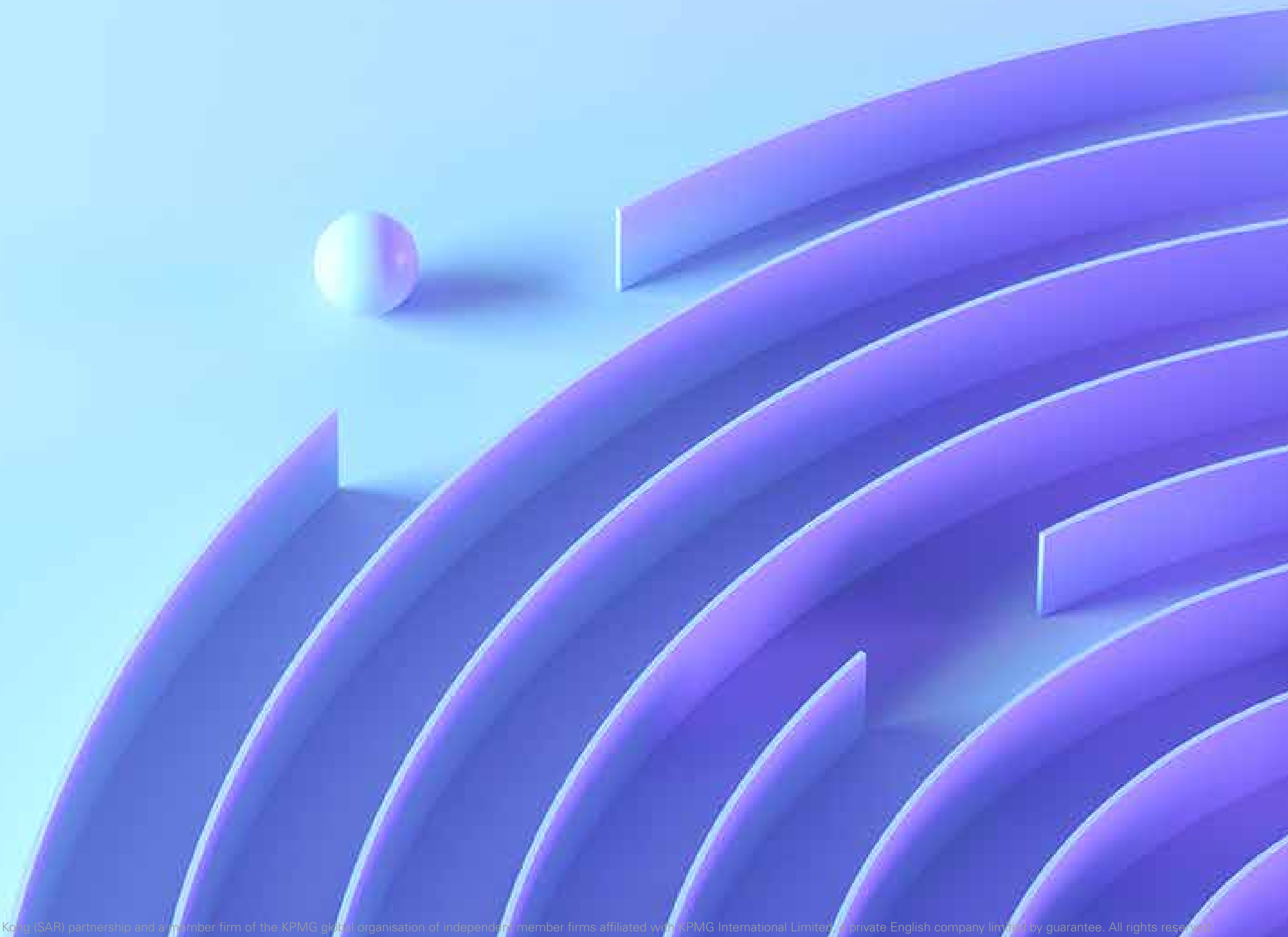
Going forward

Although the Cross-Border Data Transfer requirements and the Standard Contract are Chinese laws that must be filed in the Mainland, a lot of the stakeholders are based in Hong Kong, ASPAC or other jurisdictions. As these are key laws for all businesses that have operations in China, it is important that Hong Kong-based executives also have a good understanding of the developments in cybersecurity and data transfer.

Due to the importance of the topic, there is a lot of demand in the market for guidance to ensure that the approval processes are carried out correctly. The cost of compliance with the changing requirements is also a consideration. Some foreign banks have sought assistance from third party firms to get more insight on what they need to do to follow the requirements in an efficient and cost-effective manner.

With any new law there will be new challenges to navigate, and it is expected that the cybersecurity landscape in China will continue to evolve. Going forward, banks should continue to upgrade their procedures and toolkits to comply with the current requirements, and stay alert for further guidance from the regulator that may be announced in the future.

Risk and Regulatory Trends



Risk and Regulatory Trends

Operational Resilience

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Preparations for OR-2 regulatory regime strengthen Hong Kong banks' ability to withstand disruption to their operations and in third party service providers

Operational resilience has been top of the agenda for banks in Hong Kong in recent months as they have worked to meet the deadline for compliance with the first part of the Operational Resilience 2 (OR-2) regime in May. The OR-2 framework ensures that banks are prepared for disruption to services, including those provided by third parties, and also requires increased accountability from senior executives regarding operational resilience.

One of the key demands from the regulator as part of OR-2 is that banks understand where the vulnerabilities are in terms of delivering their services and are prepared to deal with potential disruptions. These vulnerabilities are across areas including people, facilities, technology, information and dependencies on third parties or intragroup entities.

One of the vulnerabilities that the regulator is specifically looking at under OR-2 is risks carried by third parties. Banks are being asked to first of all identify where they are relying on critical third parties, and ensure that they know their vendors and the processes involved, so that using third parties is not a case of "out of sight, out of mind".

As part of their operational resilience preparations, banks need to select a range of "severe but plausible" scenarios that could cause disruption to their critical operations, including scenarios related to disruptions at a third party or within the third party's supply chain. Banks will need to model the impact if a third party cannot provide the expected service and how long it will take to recover.

For example, if a bank is relying on one third party for a particular service, it could back this up by using a second service provider. The same with location: banks should consider having their service centres based in two or more locations to split the risk if one centre is disrupted. Using multiple service centres means that even if one centre is shut down, the others in the region can work together to provide full coverage.

Banks will need to carry out regular monitoring of their capabilities including an annual exercise to challenge their operational resilience framework. They will also need to continually invest in and upgrade their infrastructure under the OR-2 guidelines.

Beyond the deadline

Now that the first OR-2 deadline has passed, we expect regulators to review the results of the initial framework development and implementation work and give feedback on the decisions that banks have made in areas including the selection of critical operations, severe but plausible scenarios and tolerance thresholds. The regulator will also review banks' operational capabilities under the banks' selected range of severe but plausible scenarios that would affect their critical operations following severe disruption given the infrastructure they have in place.

With their oversight of the entire sector, regulators will also be able to compare parameters across the industry and may have further insights to share. For example, outsourcing could present a concentration risk. Looking at the whole market, the regulator may find that a number of banks are using the same material third parties to provide the same service to customers. This would have a significant impact on the whole Hong Kong banking service capability or to the banks' viability if this vendor was disrupted. In such a scenario, further diversification of third party vendors would be needed.

It is expected that regulators will use their insights to provide feedback to banks and play an active role in shaping the industry's response to the new requirements.

Ongoing process

Now that the OR-2 deadline has been met, banks are moving to the implementation phase. In some respects, the work has only just begun, as banks now have to execute the framework and carry out testing to demonstrate the validity of the framework they created to achieve service resilience.

This will involve more effort to align enterprise-wide roles and responsibilities. Operational resilience practices will need to become embedded in day-to-day operations, and all employees will need to think about their roles and how they contribute to the bank's connected operational resilience model with stability.

Moving forward, banks will need to carry out regular monitoring of their capabilities including an annual exercise to challenge their operational resilience framework. They will also need to continually invest in and upgrade their infrastructure under the OR-2 guidelines.

The need to fulfil the regulatory requirements of OR-2 has been a major incentive for banks to continually monitor and upgrade their operational resilience. However, banks in Hong Kong also recognise that being able to deliver their critical operations through disruption is fundamental to their viability and vital for market stability.

Disruption is becoming a new normal: for example, some leading social media platforms have experienced significant interruptions to their service in recent times. And while the demise of Silicon Valley Bank in the US was not directly related to operational resilience, this crisis serves as a reminder for banks to prepare for disruptive situations, such as a lot of customers wanting to make withdrawals at the same time, and the banks' trading systems are more likely to come under stress.

Banks should look at operational resilience from the perspective of both acute disruption and ongoing maintenance and proactively think about what investment is required:

- Crisis management is number 1: preparing for acute situations within the organisation where the bank has to react quickly.
- Incident management programme is established to manage all incidents, especially those that may impact critical operations.
- Continuity planning focuses on the ongoing mitigation of risk, including ensuring that the banks know what the risks are.
- Operational risk management is identifying the risks, and putting in place an understanding of tolerance levels.
- Technology and related architecture in the background must be prepared to run the business through severe disruption within the tolerance thresholds.

Another potential issue for banks is regulatory risk, as regulators will sometimes need to respond quickly to external events, which will impact how banks operate.

Understanding and accountability

An important element of OR-2 is that it requires the board and senior management to have increased understanding and accountability regarding the bank's performance (financial resilience) from an operational resilience perspective. Essentially, the OR-2 framework sets the expectation that senior management will be able to make key decisions around improving the structure from an operational resilience perspective, including identifying vulnerabilities and the remedial actions and plans that will be taken.

For additional assurance, boards can ask an independent consultant to help them review their list of critical operations, severe but possible scenarios and tolerance thresholds, before submitting to the regulator, as well as more general operational resilience advice and support.

From a global perspective, Hong Kong is among the most advanced jurisdictions in having a strong and comprehensive operational resilience regulatory framework in place. While these regulatory requirements add complexity and demand effort from the banks, they have considerable benefits.

When a large company has interruptions to its services it often makes global headlines and can be disastrous for the company's reputation. For banks, it is particularly important that disruptions are dealt with swiftly. A strong operational resilience system means that banks can recover quickly from any disruption and avoid having a detrimental impact on their clients, from retail customers to major global corporates.

Ultimately, operational resilience not only benefits banks and protects all their customers, but also plays a crucial role in strengthening the foundations of Hong Kong as a stable and secure global finance hub.

Risk and Regulatory Trends

Banking Turmoil

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Concentration risk and failure to manage assets and liabilities contributed to demise of a number of banks globally

The global banking industry experienced a period of considerable turmoil in the past year as a number of banks collapsed. These developments were shocking partly because of the speed of the collapse of several of the banks involved, as well as the fact that many of them had previously been large and successful players in their market.

Although most of the issues that led to the collapse of these banks are not directly relevant to Hong Kong banks, there are still lessons on risk management for all financial institutions to bear in mind.

Reasons for the collapse

One of the triggers for the collapse of the affected banks was the macroeconomic environment. Central banks around the world have rolled out an unprecedented programme of interest rate hikes over the past year in an effort to bring inflation under control.

A side effect of this policy has been a significant impact on the value of bonds, in particular longer term bonds, which lost market value of as much as 30%. For banks that were holding a large amount of these bonds and similar types of securities, this would become a major issue.

The reason that some banks were holding so many of these bonds was due to their high level of deposits. The boom of the past few years had resulted in a huge inflow of deposits to banks during 2020 and 2021. Some banks chose to invest a lot of these deposits in long-term mortgage-backed securities and bonds, but this meant that they were highly vulnerable when interest rates rose and the fair value of the bonds dropped.

At the same time, as the global economy cooled in 2022 and the amount of deposits shrunk, banks needed to adjust their balance sheets and sold some of the available-for-sale (AFS) securities at a loss. Customers were spooked by this unexpected development, and many of them rushed to transfer their deposits.

Good practice for banks

From the experience of the collapse of several banks, some reminders of good practice can be taken on board.

On the asset side, banks should remember that focusing too much investment in longer term bonds, without hedging their assets, means they will be more seriously affected by the impact of interest rate rises.

On the liability side, banks should be alert to concentration risk. Similar types of customers demonstrate similar behaviours, which becomes a problem if certain customers want to make large withdrawals. This includes have too many customers concentrated in the same industry, or customers with high levels of deposits that are not covered by their respective government's insurance level for bank deposits.

Associated with concentration risk is reputational risk. When customers are concentrated within a certain type or sector, they can often also communicate with each other and share news or concerns easily and quickly. Such a highly concentrated customer base means that reputational rumours will have a bigger impact than on banks with a much broader customer base.

Another area to look out for is a mismatch in the duration of assets and liabilities. A mismatch is normal practice for banks so they can gain a higher return on their assets, but banks should take care that it doesn't start to grow far beyond industry norms.

Some other key issues that banks could consider include governance. Banks must pay close attention to all the regulatory demands in the jurisdictions where they operate. However, in cases where regulations have eased, banks should perhaps consider the impact from a risk perspective and check whether lower regulatory demands may have other consequences for their operations. Banks should also ensure that they have a well-resourced Risk Management function that has the expertise and knowledge to flag up any issues sooner rather than later.

> *Although most of the issues that led to the collapse of these banks are not directly relevant to Hong Kong banks, there are still lessons on risk management for all financial institutions to bear in mind.*

Key risk lessons

There are still important lessons that all financial institutions can learn from the issues that affected many of the collapsed banks. Firstly, banks should pay close attention to their balance sheet and monitor the asset and liability mismatch, including the interest rate risk and the duration of the balance sheet. Hong Kong banks should strengthen their Asset-Liability Committee (ALCO) oversight and responsibilities.

Secondly, banks should be aware that any concentration in types of borrowers is a red flag, while deposits that rely too much on a specific industry is another cause for concern.

A third point that banks should consider is the disconnect between accounting and risk regulation. From an accounting perspective, some assets are measured at amortised cost, meaning that they are valued at the initial purchase cost, not at fair value. But when these assets are sold, they can only be sold at market value. This could end up being a lot lower than the initial cost. Banks should be aware of this possible disconnect to ensure that they have a realistic view of the market value of their assets, especially when those bonds could potentially be the source of liquidity to cover large cash outflow.

While the global banking turmoil seems to have eased, there may be wider repercussions. There has been a significant move of deposits out of smaller banks to larger banks. This pattern could affect the property sector as most commercial real estate loans in the US are held by medium and small banks. If a significant number of customers move their deposits, this could potentially trigger a crisis in commercial real estate loans, and in turn lower the price of commercial real estate.

Risk and Regulatory Trends

Sophisticated High-Net-Worth Investors

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New proposal to streamline selling processes and clarify guidance aims to boost the wealth management sector

The growing number of high-net-worth individuals across Asia means that wealth management services are increasingly in demand. Banks in Hong Kong are ideally placed to offer these clients the expertise they need, but they need to have the right products on offer, supported by a sales process that ensures clients are able to easily and efficiently invest in the products available while providing an appropriate level of investor protection.

The availability of a broad range of investment products, including relatively sophisticated complex products, is a key part of Hong Kong's attractiveness as a wealth management hub. However, the suitability requirements that has developed over the last decade in Hong Kong to protect investors who may not sufficiently understand investment products and their associated risks has been seen by some in the industry as excessive when servicing sophisticated and knowledgeable customers.

To ensure that Hong Kong remains competitive in this area, the Hong Kong Monetary Authority and the Securities and Futures Commission have recently been engaging the private wealth management industry to review Hong Kong's wealth management framework, and have proposed a new Sophisticated High-Net-Worth Investor (SHNWI) initiative to streamline or waive selected requirements of the process of product suitability and risk disclosure.

The proposal aims to ensure that the regulators take a balanced approach regarding the obligations placed on wealth managers when serving sophisticated high-net-worth investors. In practice, this means a regulatory regime that is user friendly for customers while still being robust enough to provide investor protection.

Selling of investment products

The Hong Kong regulators have occasionally received feedback that some customers have experienced delays in being able to access investment products. Sometimes, this has been due to the prescriptive product suitability and risk disclosure processes, which may seem excessive for seasoned investors.

But it is also because some banks have been cautious in making these judgements. For example, some banks have not made full use of the regulatory flexibility that is allowed, or they have adopted very conservative risk and concentration thresholds. Furthermore, some banks have been conducting additional suitability assessments that are not required.

In this regard, banks are simply being prudent. Their compliance and internal auditor functions may have adopted more stringent measures to make sure there are no breaches of regulation. But this has led to a frustrating experience for some investors, who have had to endure a lengthy investment product selling process due to the bank's strict requirements.

At the same time, taking a very conservative suitability approach means that banks might be missing out on the business opportunities in this dynamic and growing segment of the market.

New SHNWI initiative

The SHNWI initiative was proposed in response to concerns from some customers that the selling process was overly long and complex, as well as requests from the industry for more regulatory guidance. With other jurisdictions also competing for the investible assets of the region's ultra-high-net worth investors, there is a strong incentive for Hong Kong to make sure that the city's wealth management framework allows flexibility to enhance customer experience while providing appropriate investor protection.

The initiative aims to reduce or remove undue delay or obstacles from the selling process for sophisticated high-net-worth investors by streamlining areas of product due diligence, suitability assessment and product disclosure, while also providing proportionate investor protection.

While the SHMWI guidance has not yet been finalised, it is expected that to qualify as a sophisticated high-net-worth investor, clients must have AUM of a certain level and must also be able to demonstrate that they have previous investment knowledge and experience, which can be from work or academic experience. Those investors that qualify will then be eligible for the streamlined processes and increased flexibility.

Ultimately, it will be up to the banks to decide if they want to adopt this flexibility. But it is expected that when the proposal takes effect, banks will be more confident in supporting the initiative given the clear guidance from the regulators. This will benefit both banks and customers: investors will enjoy easier access to the products they are interested in, while banks can conduct more business while offering a better customer experience.

Other guidelines have been issued by the regulators in the past to help banks interpret the rules and understand exactly what is allowed in terms of regulatory flexibility. However, the SHWI initiative should provide greater clarification and ultimately help to attract more wealth management clients to Hong Kong.

Balancing act

The cycle of regulatory requirements and guidelines around investment products has been seen before. After the global financial crisis and the related mini-bonds crisis in 2008 that affected many Hong Kong investors, regulatory measures were tightened significantly, and the HKMA started issuing regulatory circulars on top of the SFC requirements. After a decade or so, regulations had eased somewhat, but banks in Hong Kong have remained relatively cautious.

Regulators have a difficult balancing act in terms of the guidance they provide. If it is too prescriptive, banks don't have the leeway to serve their customers well. But a more flexible environment can lead to overly prudent practice as banks don't want to take the risk or possibly misunderstand the regulatory standards.

The SHNWI initiative is therefore a welcome development that should strike a good balance between continuing to offer investors a high level of protection while also encouraging banks to make use of the allowed flexibility to provide prompt and comprehensive services to their sophisticated high-net worth investor clientele. It will also help Hong Kong to demonstrate its credentials as a hub for wealth management with an evolving regulatory framework that supports the development of the industry and is tailored to allow banks to best serve and protect different types of clients.

> *The availability of a broad range of investment products, including relatively sophisticated complex products, is a key part of Hong Kong's attractiveness as a wealth management hub.*

Risk and Regulatory Trends

Data Analytics Platforms

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Banks should ensure that they have the capability to make use of the new types of data sets that are emerging as technology evolves

Data analytics platforms are used by banks to rapidly identify and remediate issues that emerge. They also help to prevent problems from happening in the first place, by detecting unusual activity that otherwise would have slipped through the cracks. Besides helping to protect against risk and fulfilling regulatory requirements, data analysis also gives banks a huge amount of information that they can use to better serve their customers.

The use of data analytics platforms is usually driven by three main factors. Cost and efficiency are the first two considerations, as using such platforms generally provides cheaper and faster analysis. A third factor is regulatory risk – banks need to ensure that they are not inviting more regulatory risk, so using data platforms can be safer as they as are focused on specialised areas.

Changing landscape

In terms of their adoption of data analytics platforms, banks in Hong Kong are doing well compared to global standards. Part of this is due to encouragement from the HKMA, who have made it a regulatory focus in recent years and have also been keeping track of adoption and activity.

But while data analytics platforms are not a new development for banks, the technology changes constantly as new innovations emerge, and banks need to keep up to date. Banks have become skilled in using traditional and existing data sets in recent years. However, to really benefit from data analysis they should also be making use of the new types of data sets that are emerging, to better understand customer behaviour and to spot any anomalies.

A key challenge currently for banks is ensuring that they are able to use the new data that is becoming available as a result of the changes in the overall banking infrastructure and the increasing use of mobile devices for banking by customers. If they are to take advantage of this wealth of new data, banks will need to have the right platforms and qualified people in place – whether in-house or by using third party service providers.

Hong Kong's new virtual banks have an advantage in some respects when it comes to data analysis. As these banks are entirely online, their customers' footprints are therefore entirely digital. This gives the virtual banks a more complete picture of customer activity, with whole new sets of data points including IP addresses, location and even biometric footprints. For example, they can identify if a customer is logging in from a different device than usual.

Traditional banks are also benefitting from these new data sets as their customers are also increasingly using mobile devices for banking. In addition, seeing some of the headway that the virtual banks are making in this area has nudged the bigger banks to adopt some of the new technology. The major banks in Hong Kong also have the advantage of more data to use from their large customer base.

Moving forward

As data analytics becomes ever more important for banks, a number of questions are emerging about how to move forward. One of the key areas for consideration is the use of outsourcing.

Banks have been using data analytics for some time, but as the landscape evolves there are good reasons for banks to take a fresh look at how they are using data analytics platforms and the related staff. Over the years, as the technology initially developed, banks hired a lot of data scientists and other experts in areas including cybersecurity and forensics to run their data analytics platforms. These highly qualified staff members also require high salaries, so come at a significant cost.

But these earlier types of data science have now become "business-as-usual" for banks, so they are now asking if their high-salaried staff members need to continue focusing on these areas. If such types of data analysis can be outsourced, this will save costs, and allow the banks' top-level data scientists to focus on the next generation of technology and innovation.

There are a number of well-established third party vendors in the market that can provide specialised data analytics platforms that offer a more cost-effective option.

The second key consideration involving data analytics platforms is around workforce transformation. Many areas of banking have now become data driven and analytics focused, so banks are realising that the number and type of staff that they need in today's workplace may be quite different, even compared with only a few years ago.

One of the key benefits of data analytics platforms is that they have removed a lot of the mundane work for banking staff. Banks therefore do not need so many employees engaged in low-skilled activity as in the past.

More recently, as the technology has become more sophisticated, data analytics platforms are increasingly able to carry out some of the more complex analytic work. This is freeing data scientists to use their expertise to look ahead and focus on identifying the new analytics development that will help banks strengthen their resilience and improve their services.

Now that the pandemic restrictions have been removed in Hong Kong, it is a good opportunity for banks to review their workforce and operations. This should include the use of data analytics platforms, which can not only improve efficiency and save costs, but will also free up banking employees to do more meaningful work.

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)	10,324,152	1.	Hongkong And Shanghai Banking Corporation Limited (The)	82,104	1.	Bank of Communications (Hong Kong) Limited	26.8%
2.	Bank of China (Hong Kong) Limited	3,491,124	2.	Bank of China (Hong Kong) Limited	29,587	2.	Bank of China (Hong Kong) Limited	28.9%
3.	Standard Chartered Bank (Hong Kong) Limited	2,478,009	3.	Hang Seng Bank, Limited	10,151	3.	Industrial And Commercial Bank of China (Asia) Limited	30.4%
4.	Hang Seng Bank, Limited	1,893,805	4.	Standard Chartered Bank (Hong Kong) Limited	6,298	4.	Shanghai Commercial Bank Limited	34.7%
5.	Industrial And Commercial Bank of China (Asia) Limited	924,820	5.	Industrial And Commercial Bank of China (Asia) Limited	6,023	5.	Nanyang Commercial Bank, Limited	36.2%
6.	Bank of East Asia, Limited (The)	882,825	6.	DBS Bank (Hong Kong) Limited	5,554	6.	CMB Wing Lung Bank Limited	38.0%
7.	Nanyang Commercial Bank, Limited	541,677	7.	Bank of East Asia, Limited (The)	4,378	7.	Chong Hing Bank Limited	38.6%
8.	DBS Bank (Hong Kong) Limited	475,875	8.	Nanyang Commercial Bank, Limited	3,908	8.	China Construction Bank (Asia) Corporation Limited	39.0%
9.	Bank of Communications (Hong Kong) Limited	467,012	9.	China Construction Bank (Asia) Corporation Limited	3,089	9.	Hang Seng Bank, Limited	43.5%
10.	China Construction Bank (Asia) Corporation Limited	460,448	10.	CMB Wing Lung Bank Limited	2,958	10.	DBS Bank (Hong Kong) Limited	44.1%

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	29,023	1.	Citicorp International Limited	1,760	1.	Kasikornbank Public Company Limited	7.3%
2.	Banc of America Securities Asia Limited	26,300	2.	J.P. Morgan Securities (Asia Pacific) Limited	1,392	2.	KDB Asia Limited	18.0%
3.	Kasikornbank Public Company Limited	22,634	3.	KDB Asia Limited	326	3.	Banc of America Securities Asia Limited	22.2%
4.	KDB Asia Limited	22,560	4.	Kasikornbank Public Company Limited	260	4.	Siam Commercial Bank Public Company Limited (The)	46.7%
5.	J.P. Morgan Securities (Asia Pacific) Limited	19,221	5.	Banc of America Securities Asia Limited	208	5.	Bank of Shanghai (Hong Kong) Limited	51.6%
6.	Siam Commercial Bank Public Company Limited (The)	10,326	6.	ORIX Asia Limited	79	6.	Citicorp International Limited	57.0%
7.	Korea Development Bank (The)	8,322	7.	Habib Bank Zurich (Hong Kong) Limited	39	7.	Allied Banking Corporation (Hong Kong) Limited	59.0%
8.	Bank of China International Limited	6,405	8.	Allied Banking Corporation (Hong Kong) Limited	21	8.	Habib Bank Zurich (Hong Kong) Limited	64.9%
9.	Citicorp International Limited	4,376	9.	Goldman Sachs Asia Bank Limited	18	9.	Goldman Sachs Asia Bank Limited	68.2%
10.	ORIX Asia Limited	4,068	10.	Siam Commercial Bank Public Company Limited (The)	15	10.	ORIX Asia Limited	71.0%

Deposit-taking companies

Ranking	Total assets	HK$ million	Ranking	Net profit after tax	HK$ million	Ranking	Cost/income ratio	
1.	Public Finance Limited	6,342	1.	Public Finance Limited	173	1.	BCOM Finance (Hong Kong) Limited	12.5%
2.	Kexim Asia Limited	5,597	2.	Woori Global Markets Asia Limited	61	2.	Woori Global Markets Asia Limited	32.0%
3.	Woori Global Markets Asia Limited	3,674	3.	Kexim Asia Limited	36	3.	Chong Hing Finance Limited	38.0%
4.	KEB Hana Global Finance Limited	1,326	4.	KEB Hana Global Finance Limited	28	4.	Kexim Asia Limited	38.6%
5.	Vietnam Finance Company Limited	520	5.	BPI International Finance Limited	6	5.	KEB Hana Global Finance Limited	45.0%
6.	BPI International Finance Limited	398	6.	BCOM Finance (Hong Kong) Limited	6	6.	Public Finance Limited	56.3%
7.	Corporate Finance (D.T.C.) Limited	328	7.	Commonwealth Finance Corporation Limited	2	7.	Commonwealth Finance Corporation Limited	82.4%
8.	BCOM Finance (Hong Kong) Limited	278	8.	Vietnam Finance Company Limited	1	8.	Corporate Finance (D.T.C.) Limited	85.7%
9.	Commonwealth Finance Corporation Limited	258	9.	Corporate Finance (D.T.C.) Limited	1	9.	BPI International Finance Limited	88.3%
10.	Fubon Credit (Hong Kong) Limited	97	10.	Chong Hing Finance Limited	-	10.	Vietnam Finance Company Limited	88.9%

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	591,658	1.	UBS AG	5,718	1.	Woori Bank	9.4%
2.	Citibank, N.A.	590,089	2.	Citibank, N.A.	4,038	2.	Agricultural Bank of China Limited	10.1%
3.	Mizuho Bank, Ltd.	444,774	3.	Agricultural Bank of China Limited	3,643	3.	First Commercial Bank, Ltd.	12.8%
4.	Bank of Communications Co., Ltd.	353,564	4.	China Development Bank	2,782	4.	China Merchants Bank Co., Ltd.	13.2%
5.	MUFG Bank, Ltd.	351,436	5.	DBS Bank Ltd.	2,709	5.	KEB Hana Bank	13.6%
6.	BNP Paribas	315,015	6.	China Merchants Bank Co., Ltd.	2,086	6.	Kookmin Bank	13.9%
7.	JPMorgan Chase Bank, National Association	302,879	7.	United Overseas Bank Ltd.	2,059	7.	Hua Nan Commercial Bank, Ltd.	14.4%
8.	Sumitomo Mitsui Banking Corporation	302,801	8.	China Minsheng Banking Corp., Ltd.	1,576	8.	China Development Bank	14.6%
9.	DBS Bank Ltd.	302,115	9.	Industrial Bank Co., Ltd.	1,503	9.	Mega International Commercial Bank Co., Ltd.	15.2%
10.	China Development Bank	266,127	10.	Bank of America, National Association	1,439	10.	Industrial Bank Co., Ltd.	17.4%

Source: Extracted from individual banks' financial and public statements

Licensed banks

Ranking	Return on equity		Ranking	Growth in assets		Ranking	Growth in net profit after tax	
1.	DBS Bank (Hong Kong) Limited	12.8%	1.	Chong Hing Bank Limited	10.0%	1.	Tai Yau Bank, Limited	106.7%
2.	Bank of China (Hong Kong) Limited	9.6%	2.	Fubon Bank (Hong Kong) Limited	9.7%	2.	Fubon Bank (Hong Kong) Limited	40.7%
3.	Hongkong And Shanghai Banking Corporation Limited (The)	8.8%	3.	Citibank (Hong Kong) Limited	9.5%	3.	Bank of China (Hong Kong) Limited	22.1%
4.	Morgan Stanley Bank Asia Limited	7.6%	4.	China CITIC Bank International Limited	8.2%	4.	Nanyang Commercial Bank, Limited	21.0%
5.	Shanghai Commercial Bank Limited	7.6%	5.	DBS Bank (Hong Kong) Limited	6.3%	5.	DBS Bank (Hong Kong) Limited	16.9%
6.	Nanyang Commercial Bank, Limited	6.1%	6.	OCBC Wing Hang Bank Limited	4.3%	6.	Hongkong And Shanghai Banking Corporation Limited (The)	13.2%
7.	CMB Wing Lung Bank Limited	5.6%	7.	Hongkong And Shanghai Banking Corporation Limited (The)	4.2%	7.	OCBC Wing Hang Bank Limited	6.9%
8.	Hang Seng Bank, Limited	5.5%	8.	Hang Seng Bank, Limited	4.0%	8.	Industrial And Commercial Bank of China (Asia) Limited	6.3%
9.	OCBC Wing Hang Bank Limited	5.5%	9.	Chiyu Banking Corporation Limited	2.6%	9.	China CITIC Bank International Limited	5.9%
10.	Dah Sing Bank, Limited	5.1%	10.	Wing Lung Bank Limited	2.2%	10.	Wing Lung Bank Limited	-2.4%

Restricted licence banks

Ranking	Return on equity		Ranking	Growth in assets		Ranking	Growth in net profit after tax	
1.	Korea Development Bank (The)	95.8%	1.	Banc of America Securities Asia Limited	175.4%	1.	Banc of America Securities Asia Limited	407.3%
2.	Citicorp International Limited	36.6%	2.	Korea Development Bank (The)	100.0%	2.	ORIX Asia Limited	216.0%
3.	J.P. Morgan Securities (Asia Pacific) Limited	10.6%	3.	Goldman Sachs Asia Bank Limited	1.5%	3.	Goldman Sachs Asia Bank Limited	157.1%
4.	KDB Asia Limited	8.6%	4.	Kasikornbank Public Company Limited	0.6%	4.	Habib Bank Zurich (Hong Kong) Limited	25.8%
5.	Habib Bank Zurich (Hong Kong) Limited	6.7%	5.	Habib Bank Zurich (Hong Kong) Limited	-0.7%	5.	KDB Asia Limited	12.0%
6.	Kasikornbank Public Company Limited	5.9%	6.	Allied Banking Corporation (Hong Kong) Limited	-1.4%	6.	Kasikornbank Public Company Limited	8.3%
7.	Banc of America Securities Asia Limited	4.8%	7.	J.P. Morgan Securities (Asia Pacific) Limited	-1.6%	7.	Allied Banking Corporation (Hong Kong) Limited	0.4%
8.	Allied Banking Corporation (Hong Kong) Limited	3.6%	8.	ORIX Asia Limited	-10.4%	8.	Citicorp International Limited	-4.5%
9.	ORIX Asia Limited	3.5%	9.	KDB Asia Limited	-13.3%	9.	Siam Commercial Bank Public Company Limited (The)	-28.6%
10.	Goldman Sachs Asia Bank Limited	1.9%	10.	Bank of Shanghai (Hong Kong) Limited	-17.9%	10.	J.P. Morgan Securities (Asia Pacific) Limited	-46.3%

Virtual banks

Ranking	Total assets	HK$ million	Ranking	Profit before tax	HK$ million	Ranking	Total deposits from customers	HK$ million
1.	ZA Bank Limited	11,608	1.	Ping An OneConnect Bank (Hong Kong) Limited	(157)	1.	ZA Bank Limited	9,172
2.	Mox Bank Limited	10,414	2.	Airstar Bank Limited	(200)	2.	Mox Bank Limited	8,365
3.	Fusion Bank Limited	4,371	3.	Ant Bank (Hong Kong) Limited	(203)	3.	Fusion Bank Limited	3,437
4.	Livi Bank Limited	4,098	4.	Welab Bank Limited	(458)	4.	Livi Bank Limited	3,098
5.	Ping An OneConnect Bank (Hong Kong) Limited	3,193	5.	ZA Bank Limited	(499)	5.	Ping An OneConnect Bank (Hong Kong) Limited	2,147
6.	Welab Bank Limited	2,689	6.	Fusion Bank Limited	(533)	6.	Welab Bank Limited	1,978
7.	Airstar Bank Limited	2,660	7.	Mox Bank Limited	(631)	7.	Airstar Bank Limited	1,799
8.	Ant Bank (Hong Kong) Limited	1,443	8.	Livi Bank Limited	(715)	8.	Ant Bank (Hong Kong) Limited	354

Foreign bank branches

Ranking	Growth in assets		Ranking	Growth in net profit after tax	
1.	NongHyup Bank	14878.6%	1.	Cathay United Bank Company, Limited	3000.0%
2.	Bank of Dongguan Co., Ltd.	536.6%	2.	Sumitomo Mitsui Trust Bank, Limited	1877.8%
3.	Banque Pictet & Cie Sa	279.5%	3.	NongHyup Bank	1300.0%
4.	Barclays Bank PLC	242.6%	4.	First Commercial Bank, Ltd.	867.9%
5.	Canadian Imperial Bank of Commerce	180.6%	5.	Malayan Banking Berhad	820.3%
6.	Hua Xia Bank Co., Limited	66.5%	6.	MUFG Bank, Ltd.	743.5%
7.	China Guangfa Bank Co., Ltd.	65.3%	7.	Taiwan Business Bank	700.0%
8.	Erste Group Bank AG	48.2%	8.	East West Bank	652.0%
9.	Banco Bilbao Vizcaya Argentaria S.A.	43.1%	9.	Mitsubishi UFJ Trust And Banking Corporation	514.3%
10.	Crédit Industriel et Commercial	42.2%	10.	Bank of America, National Association	480.7%

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-22	34,790	20,529	15,967	39,352	2,545	1,291
2	Bank of Communications (Hong Kong) Limited	31-Dec-22	5,494	876	1,705	4,665	1,825	(39)
3	Bank of East Asia, Limited (The)	31-Dec-22	13,508	4,446	9,224	8,730	5,416	(1,627)
4	China CITIC Bank International Limited	31-Dec-22	6,896	1,567	4,099	4,364	1,900	(85)
5	China Construction Bank (Asia) Corporation Limited	31-Dec-22	5,760	2,123	3,077	4,806	1,313	(189)
6	Chiyu Banking Corporation Limited	31-Dec-22	1,803	1,134	1,334	1,603	554	4
7	Chong Hing Bank Limited	31-Dec-22	3,984	1,122	1,973	3,133	2,030	(162)
8	Citibank (Hong Kong) Limited	31-Dec-22	3,101	3,545	5,221	1,425	137	7
9	CMB Wing Lung Bank Limited	31-Dec-22	5,611	2,037	2,907	4,741	1,332	(60)
10	Dah Sing Bank, Limited	31-Dec-22	4,372	2,444	3,026	3,790	784	1,056
11	DBS Bank (Hong Kong) Limited	31-Dec-22	8,272	4,346	5,570	7,048	370	20
12	Fubon Bank (Hong Kong) Limited	31-Dec-22	1,607	368	1,046	929	288	(10)
13	Hang Seng Bank, Limited	31-Dec-22	28,981	4,991	14,778	19,194	7,669	86
14	Hongkong And Shanghai Banking Corporation Limited (The)	31-Dec-22	126,852	78,840	110,508	95,184	15,503	(17,930)
15	Industrial And Commercial Bank of China (Asia) Limited	31-Dec-22	9,735	2,758	3,798	8,695	1,169	255
16	Morgan Stanley Bank Asia Limited	31-Dec-22	711	2,833	2,605	939	-	-
17	Nanyang Commercial Bank, Limited	31-Dec-22	7,172	2,478	3,490	6,160	1,535	181
18	OCBC Wing Hang Bank Limited	31-Dec-22	5,329	2,010	3,846	3,493	784	(234)
19	Public Bank (Hong Kong) Limited	31-Dec-22	1,156	208	830	534	131	-
20	Shanghai Commercial Bank Limited	31-Dec-22	3,887	1,265	1,790	3,362	271	(111)
21	Standard Chartered Bank (Hong Kong) Limited	31-Dec-22	27,169	22,430	32,513	17,086	6,733	1,532
22	Tai Sang Bank Limited	31-Dec-22	10	19	34	(5)	-	1
23	Tai Yau Bank, Limited	31-Dec-22	17	-	16	1	-	-
	TOTAL[N1]	**2022**	**277,236**	**157,378**	**214,579**	**220,035**	**44,620**	**(16,100)**
	Total excluding HSBC[N2]	**2022**	**179,365**	**83,529**	**118,849**	**144,045**	**36,786**	**1,916**
	Total excluding BOCHK & HSBC[N2]	**2022**	**144,575**	**63,000**	**102,882**	**104,693**	**34,241**	**625**

* 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	Gross advances to customers	Expected credit loss allowance against customer advances	Total deposits from customers	Total equity	Capital adequacy ratio	Liquidity ratio
35,516	29,587	3,491,124	1,656,430	11,499	2,379,520	310,327	21.6%	178.5%*
2,879	2,407	467,012	210,754	2,706	338,218	50,550	18.6%	145.1%*
4,941	4,378	882,825	549,543	6,620	648,093	106,346	20.1%	197.7%*
2,549	2,253	451,651	246,798	1,378	340,488	54,694	18.6%	209.0%*
3,682	3,089	460,448	274,105	3,710	352,617	72,515	20.9%	130.9%*
1,045	903	181,871	87,961	473	140,835	17,863	16.3%	205.7%*
1,265	1,143	280,766	166,704	2,788	223,488	35,943	17.6%	54.2%#
1,281	1,116	341,834	120,619	274	255,134	24,768	24.7%	69.6%#
3,469	2,958	397,494	203,921	2,172	301,621	52,705	18.5%	160.3%*
1,950	1,589	252,916	140,197	1,642	199,803	31,007	19.3%	57.3%#
6,658	5,554	475,875	279,660	3,464	394,360	43,443	18.4%	158.2%*
651	543	129,598	65,442	478	97,923	15,252	17.8%	78.2%#
11,439	10,151	1,893,805	944,728	13,394	1,249,486	183,961	18.1%	275.3%*
97,611	82,104	10,324,152	3,745,113	39,964	6,113,709	941,263	18.8%	157.8%*
7,271	6,023	924,820	460,353	8,153	565,839	143,562	22.4%	176.5%*
939	806	59,546	25,112	-	45,691	11,964	66.0%	72.0%#
4,444	3,908	541,677	294,376	4,065	365,462	62,172	17.5%	139.4%*
2,943	2,540	339,483	203,009	991	247,210	46,066	19.0%	42.9%#
403	331	38,252	24,407	202	30,464	6,659	25.0%	53.6%#
3,202	2,586	223,334	96,722	726	176,502	33,458	22.0%	52.8%#
8,821	6,298	2,478,009	1,200,887	11,141	1,705,789	185,682	20.7%	163.0%*
(6)	(5)	1,050	287	-	266	713	77.5%	78.2%#
1	1	1,910	-	-	1,107	797	227.1%	107.4%#
191,515	**160,112**	**22,745,647**	**10,052,400**	**102,446**	**14,924,139**	**2,247,749**	-	-
105,343	**88,159**	**14,315,300**	**7,252,015**	**75,876**	**10,059,916**	**1,490,447**	-	-
69,827	**58,572**	**10,824,176**	**5,595,585**	**64,377**	**7,680,396**	**1,180,120**	-	-

	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-22	69.1%	1.0%	37.1%	28.9%	0.9%	9.6%
2	Bank of Communications (Hong Kong) Limited	31-Dec-22	61.5%	1.2%	13.8%	26.8%	0.5%	4.8%
3	Bank of East Asia, Limited (The)	31-Dec-22	83.8%	1.5%	24.8%	51.4%	0.5%	3.9%
4	China CITIC Bank International Limited	31-Dec-22	72.1%	1.6%	18.5%	48.4%	0.5%	4.3%
5	China Construction Bank (Asia) Corporation Limited	31-Dec-22	76.7%	1.2%	26.9%	39.0%	0.6%	4.1%
6	Chiyu Banking Corporation Limited	31-Dec-22	62.1%	1.0%	38.6%	45.4%	0.5%	4.9%
7	Chong Hing Bank Limited	31-Dec-22	73.3%	1.5%	22.0%	38.6%	0.4%	3.2%
8	Citibank (Hong Kong) Limited	31-Dec-22	47.2%	0.9%	53.3%	78.6%	0.3%	4.5%
9	CMB Wing Lung Bank Limited	31-Dec-22	66.9%	1.4%	26.6%	38.0%	0.8%	5.6%
10	Dah Sing Bank, Limited	31-Dec-22	69.3%	1.7%	35.9%	44.4%	0.6%	5.1%
11	DBS Bank (Hong Kong) Limited	31-Dec-22	70.0%	1.8%	34.4%	44.1%	1.2%	12.8%
12	Fubon Bank (Hong Kong) Limited	31-Dec-22	66.3%	1.3%	18.6%	53.0%	0.4%	3.6%
13	Hang Seng Bank, Limited	31-Dec-22	74.5%	1.6%	14.7%	43.5%	0.5%	5.5%
14	Hongkong And Shanghai Banking Corporation Limited (The)	31-Dec-22	60.6%	1.3%	38.3%	53.7%	0.8%	8.8%
15	Industrial And Commercial Bank of China (Asia) Limited	31-Dec-22	79.9%	1.1%	22.1%	30.4%	0.7%	4.2%
16	Morgan Stanley Bank Asia Limited	31-Dec-22	55.0%	1.0%	79.9%	73.5%	1.2%	7.6%
17	Nanyang Commercial Bank, Limited	31-Dec-22	79.4%	1.3%	25.7%	36.2%	0.7%	6.1%
18	OCBC Wing Hang Bank Limited	31-Dec-22	81.7%	1.6%	27.4%	52.4%	0.8%	5.5%
19	Public Bank (Hong Kong) Limited	31-Dec-22	79.5%	3.0%	15.2%	60.9%	0.8%	5.0%
20	Shanghai Commercial Bank Limited	31-Dec-22	54.4%	1.7%	24.6%	34.7%	1.1%	7.6%
21	Standard Chartered Bank (Hong Kong) Limited	31-Dec-22	69.7%	1.1%	45.2%	65.6%	0.3%	3.4%
22	Tai Sang Bank Limited	31-Dec-22	107.9%	1.0%	65.5%	117.2%	-0.5%	-0.7%
23	Tai Yau Bank, Limited	31-Dec-22	0.0%	0.9%	0.0%	94.1%	0.1%	0.1%
	TOTAL[N1]	**2022**	**66.7%**	**1.2%**	**36.2%**	**49.4%**	**0.7%**	**7.1%**
	Total excluding HSBC[N2]	**2022**	**71.3%**	**1.3%**	**31.8%**	**45.2%**	**0.6%**	**5.9%**
	Total excluding BOCHK & HSBC[N2]	**2022**	**72.0%**	**1.3%**	**30.4%**	**49.6%**	**0.5%**	**4.9%**

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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	Risk-weighted assets ("RWA")
8,724	0.5%	4,992	57.2%	4,440	40,164	2,511	6.3%	1,309,536
5,801	2.8%	2,012	34.7%	62	13,379	140	1.0%	327,802
13,145	2.4%	4,518	34.4%	5,901	27,561	1,018	3.7%	514,873
4,167	1.7%	253	6.1%	2,502	9,805	423	4.3%	314,125
2,861	1.0%	2,347	82.0%	63	11,219	571	5.1%	348,727
1,210	1.4%	95	7.9%	1,500	1,764	25	1.4%	108,876
4,479	2.7%	2,068	46.2%	919	5,567	211	3.8%	206,510
42	0.0%	27	64.3%	24	165	111	67.3%	100,655
2,688	1.3%	1,449	53.9%	601	27,580	390	1.4%	271,583
2,539	1.8%	887	34.9%	1,056	10,375	343	3.3%	172,320
3,484	1.2%	1,459	41.9%	1,227	14,376	845	5.9%	262,344
301	0.5%	178	59.1%	109	3,193	67	2.1%	80,879
23,911	2.5%	7,802	32.6%	11,472	160,874	4,818	3.0%	764,726
62,763	1.7%	25,818	41.1%	25,381	462,083	11,200	2.4%	3,222,168
3,922	0.9%	2,283	58.2%	9,588	19,374	620	3.2%	645,838
-	0.0%	-	N/A	-	-	-	N/A	17,698
3,497	1.2%	2,170	62.1%	516	7,423	523	7.0%	372,096
2,843	1.4%	267	9.4%	2,620	36,249	380	1.0%	226,569
309	1.3%	85	27.5%	337	773	32	4.1%	25,065
875	0.9%	153	17.5%	1,466	7,140	411	5.8%	161,184
12,825	1.1%	6,861	53.5%	5,336	41,773	2,014	4.8%	846,074
-	0.0%	-	N/A	-	-	-	N/A	692
-	0.0%	-	N/A	-	-	-	N/A	351
136,475	**1.4%**	**57,922**	**42.4%**	**63,648**	**739,963**	**21,835**	**3.0%**	**9,535,965**
97,623	**1.3%**	**39,906**	**40.9%**	**49,739**	**438,754**	**15,453**	**3.5%**	**7,078,523**
88,899	**1.6%**	**34,914**	**39.3%**	**45,299**	**398,590**	**12,942**	**3.2%**	**5,768,987**

Restricted licence banks – Financial highlights

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
			Income statement					
1	Allied Banking Corporation (Hong Kong) Limited	31-Dec-22	52	9	36	25	-	-
2	Banc of America Securities Asia Limited	31-Dec-22	(274)	626	78	274	-	-
3	Bank of China International Limited	31-Dec-22	89	144	223	10	-	-
4	Bank of Shanghai (Hong Kong) Limited	31-Dec-22	516	(68)	231	217	408	449
5	Citicorp International Limited	31-Dec-22	11	4,920	2,810	2,121	-	-
6	Goldman Sachs Asia Bank Limited	31-Dec-22	21	45	45	21	-	-
7	Habib Bank Zurich (Hong Kong) Limited	31-Dec-22	82	49	85	46	(1)	-
8	J.P. Morgan Securities (Asia Pacific) Limited	31-Dec-22	251	8,617	7,151	1,717	-	-
9	Kasikornbank Public Company Limited	31-Dec-22	244	42	21	265	(5)	2
10	KDB Asia Limited	31-Dec-22	268	232	90	410	31	(2)
11	Korea Development Bank (The)	31-Dec-22	6	3	24	(15)	8	-
12	ORIX Asia Limited	31-Mar-22	151	90	171	70	(23)	(1)
13	Siam Commercial Bank Public Company Limited (The)	31-Dec-22	28	2	14	16	-	-
	TOTAL	**2022**	**1,445**	**14,711**	**10,979**	**5,177**	**418**	**448**

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

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#
25	21	1,615	921	-	985	594	41.0%	132.3%
274	208	26,300	-	-	-	4,468	63.5%	12174.9%
10	10	6,405	2,952	1	4,276	1,793	70.0%	66.7%
(640)	(601)	29,023	16,271	706	10,561	4,171	18.4%	129.2%
2,121	1,760	4,376	-	-	-	2,821	29.4%	1371.1%
21	18	1,111	-	-	8	944	180.0%	160.0%
47	39	2,955	1,847	12	1,590	591	30.8%	80.1%
1,717	1,392	19,221	-	-	-	13,789	54.3%	371.6%
268	260	22,634	959	10	-	4,354	18.8%	4844.0%
381	326	22,560	16,055	153	8	3,892	18.4%	68.6%
(23)	(23)	8,322	4,549	7	-	(24)	13.4%	293.7%
94	79	4,068	3,630	43	590	2,279	57.6%	100.2%
16	15	10,326	305	2	621	-	16.6%	69.0%
4,311	**3,504**	**158,916**	**47,489**	**934**	**18,639**	**39,672**	**-**	**-**

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-22	93.5%	3.2%	14.8%	59.0%	1.3%	3.6%
2	Banc of America Securities Asia Limited	31-Dec-22	N/A	-1.5%	177.8%	22.2%	1.2%	4.8%
3	Bank of China International Limited	31-Dec-22	69.0%	1.2%	61.8%	95.7%	0.1%	0.6%
4	Bank of Shanghai (Hong Kong) Limited	31-Dec-22	147.4%	1.6%	-15.2%	51.6%	-1.9%	-13.3%
5	Citicorp International Limited	31-Dec-22	N/A	0.2%	99.8%	57.0%	28.9%	36.6%
6	Goldman Sachs Asia Bank Limited	31-Dec-22	0.0%	1.9%	68.2%	68.2%	1.6%	1.9%
7	Habib Bank Zurich (Hong Kong) Limited	31-Dec-22	115.4%	2.8%	37.4%	64.9%	1.3%	6.7%
8	J.P. Morgan Securities (Asia Pacific) Limited	31-Dec-22	N/A	1.3%	97.2%	80.6%	7.2%	10.6%
9	Kasikornbank Public Company Limited	31-Dec-22	N/A	1.1%	14.7%	7.3%	1.2%	5.9%
10	KDB Asia Limited	31-Dec-22	198775.0%	1.1%	46.4%	18.0%	1.3%	8.6%
11	Korea Development Bank (The)	31-Dec-22	N/A	0.1%	33.3%	266.7%	-0.3%	95.8%
12	ORIX Asia Limited	31-Mar-22	608.0%	3.5%	37.3%	71.0%	1.8%	3.5%
13	Siam Commercial Bank Public Company Limited (The)	31-Dec-22	48.8%	0.2%	6.7%	46.7%	0.1%	N/A
	TOTAL	**2022**	**249.8%**	**0.9%**	**91.1%**	**68.0%**	**2.2%**	**8.5%**

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
1	0.1%	-	0.0%	-	1	-	0.0%
-	N/A	-	N/A	-	-	-	N/A
1	0.0%	1	100.0%	-	-	-	N/A
894	5.5%	505	56.5%	-	177	20	11.3%
-	N/A	-	N/A	-	-	-	N/A
-	N/A	-	N/A	-	-	-	N/A
-	0.0%	-	N/A	-	54	9	16.7%
-	N/A	-	N/A	-	-	-	N/A
-	0.0%	-	N/A	-	-	-	N/A
107	0.7%	102	95.3%	-	51	18	35.3%
-	0.0%	-	N/A	-	-	-	N/A
37	1.0%	23	62.2%	22	321	10	3.1%
-	0.0%	-	N/A	-	-	-	N/A
1,040	**2.2%**	**631**	**60.7%**	**22**	**604**	**57**	**9.4%**

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-22	-	8	1	7	-	-
2	BPI International Finance Limited	31-Dec-22	6	54	53	7	-	-
3	Chau's Brothers Finance Company Limited	31-Dec-22	4	1	5	-	-	-
4	Chong Hing Finance Limited	31-Dec-22	-	-	-	-	-	-
5	Commonwealth Finance Corporation Limited	31-Dec-22	11	6	14	3	1	-
6	Corporate Finance (D.T.C.) Limited	31-Dec-22	7	-	6	1	-	-
7	Fubon Credit (Hong Kong) Limited	31-Dec-22	-	-	7	(7)	-	-
8	KEB Hana Global Finance Limited	31-Dec-22	28	32	27	33	-	-
9	Kexim Asia Limited	31-Dec-22	65	5	27	43	-	-
10	Public Finance Limited	31-Dec-22	611	115	409	317	110	-
11	Vietnam Finance Company Limited	31-Dec-22	9	-	8	1	-	-
12	Woori Global Markets Asia Limited	31-Dec-22	68	35	33	70	(1)	-
	Total	**2022**	**809**	**256**	**590**	**475**	**110**	**-**

Note that all are Liquidity Maintenance Ratio
Source: Extracted from individual companies' 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#
7	6	278	N/A	-	-	1	275	N/A	N/A
7	6	398	294	106	-	219	152	50.5%	658.6%
-	-	71	N/A	56	1	1	69	107.6%	160.5%
-	-	47	N/A	-	-	-	47	N/A	N/A
2	2	258	N/A	146	1	119	115	77.1%	173.5%
1	1	328	N/A	177	-	221	104	N/A	N/A
(7)	(7)	97	N/A	-	-	-	84	N/A	N/A
33	28	1,326	662	1,224	1	-	583	87.8%	47700.0%
43	36	5,597	5,098	2,466	6	-	1,259	26.7%	167.7%
207	173	6,342	4,810	5,090	132	4,294	1,647	28.9%	74.3%
1	1	520	N/A	3	-	-	144	N/A	N/A
71	61	3,674	3,638	1,964	25	-	1,038	28.6%	248.6%
365	**307**	**18,936**	**14,502**	**11,232**	**166**	**4,855**	**5,517**		

	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	BCOM Finance (Hong Kong) Limited	31-Dec-22	0.0%	0.0%	100.0%	12.5%	2.2%	2.2%
2	BPI International Finance Limited	31-Dec-22	48.4%	1.6%	90.0%	88.3%	1.6%	4.0%
3	Chau's Brothers Finance Company Limited	31-Dec-22	5500.0%	5.6%	20.0%	100.0%	0.0%	0.0%
4	Chong Hing Finance Limited	31-Dec-22	N/A	1.2%	0.0%	38.0%	0.6%	0.6%
5	Commonwealth Finance Corporation Limited	31-Dec-22	121.8%	4.0%	35.3%	82.4%	0.7%	1.8%
6	Corporate Finance (D.T.C.) Limited	31-Dec-22	80.1%	2.1%	0.0%	85.7%	0.3%	1.0%
7	Fubon Credit (Hong Kong) Limited	31-Dec-22	N/A	0.0%	111.9%	11593.2%	-7.3%	-8.0%
8	KEB Hana Global Finance Limited	31-Dec-22	N/A	2.0%	53.3%	45.0%	2.0%	4.9%
9	Kexim Asia Limited	31-Dec-22	N/A	1.2%	7.1%	38.6%	0.7%	2.8%
10	Public Finance Limited	31-Dec-22	115.5%	9.4%	15.8%	56.3%	2.7%	10.5%
11	Vietnam Finance Company Limited	31-Dec-22	1041.1%	1.3%	0.0%	88.9%	0.1%	0.7%
12	Woori Global Markets Asia Limited	31-Dec-22	N/A	1.8%	34.0%	32.0%	1.6%	6.0%
	Total	**2022**	**227.9%**	**4.2%**	**24.0%**	**55.4%**	**1.6%**	**5.6%**

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	-	N/A	-	-	-	N/A
	-	0.0%	-	N/A	-	-	-	N/A
	1	1.8%	1	100.0%	N/A	-	-	N/A
	-	N/A	-	N/A	-	-	-	N/A
	-	0.0%	-	N/A	-	-	-	N/A
	-	0.0%	-	N/A	-	-	-	N/A
	-	0.0%	-	N/A	-	-	-	N/A
	-	0.0%	-	N/A	-	8	-	0.0%
	-	0.0%	-	N/A	-	-	-	N/A
	73	1.4%	40	54.8%	17	39	22	56.4%
	-	0.0%	-	N/A	-	-	-	N/A
	60	3.1%	21	35.0%	42	-	-	N/A
	134	**1.2%**	**62**	**46.3%**	**59**	**47**	**22**	**46.8%**

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	Agricultural Bank of China Limited	31-Dec-22	3,979	1,052	506	4,525	125
2	Australia And New Zealand Banking Group Limited	30-Sep-22	903	657	917	643	23
3	Banco Bilbao Vizcaya Argentaria S.A.	31-Dec-22	347	227	294	280	(7)
4	Banco Santander, S.A.	31-Dec-22	262	591	760	93	(3)
5	Bangkok Bank Public Company Limited	31-Dec-22	424	154	167	411	105
6	Bank J. Safra Sarasin AG	31-Dec-22	229	304	528	5	-
7	Bank Julius Baer & Co. Ltd.	31-Dec-22	778	1,863	2,057	584	1
8	Bank of America, National Association	31-Dec-22	1,273	1,554	1,548	1,279	(488)
9	Bank of China Limited	31-Dec-22	130	109	130	109	-
10	Bank of Communications Co., Ltd.	31-Dec-22	2,295	854	1,470	1,679	908
11	Bank of Dongguan Co., Ltd.	31-Dec-22	106	11	111	6	-
12	Bank of India	31-Mar-22	57	167	41	183	6
13	Bank of Montreal	31-Oct-22	32	307	232	107	-
14	Bank of New York Mellon (The)	31-Dec-22	372	566	565	373	-
15	Bank of Nova Scotia (The)	31-Oct-22	212	81	257	36	-
16	Bank of Singapore Limited	31-Dec-22	132	872	719	285	-
17	Bank of Taiwan	31-Dec-22	146	5	37	114	(42)
18	Bank Sinopac	31-Dec-22	532	240	190	582	80
19	Banque Pictet & Cie Sa	31-Dec-22	76	220	481	(185)	-
20	Barclays Bank PLC	31-Dec-22	39	2,813	2,029	823	6
21	BDO Unibank, Inc.	31-Dec-22	129	24	35	118	1
22	BNP Paribas	31-Dec-22	2,880	3,960	5,036	1,804	595
23	CA Indosuez (Switzerland) SA	31-Dec-22	56	283	344	(5)	-
24	Canadian Imperial Bank of Commerce	31-Oct-22	82	431	217	296	2
25	Cathay Bank	31-Dec-22	58	12	45	25	2
26	Cathay United Bank Company, Limited	31-Dec-22	326	245	200	371	30
27	Chang Hwa Commercial Bank, Ltd.	31-Dec-22	191	24	41	174	(2)
28	Chiba Bank, Ltd. (The)	31-Mar-22	45	2	25	22	-
29	China Bohai Bank Co., Ltd.	31-Dec-22	44	20	153	(89)	7
30	China Construction Bank Corporation	31-Dec-22	1,169	907	725	1,351	(220)
31	China Development Bank	31-Dec-22	1,742	1	255	1,488	(1,296)
32	China Everbright Bank Co., Ltd.	31-Dec-22	1,214	501	419	1,296	729
33	China Guangfa Bank Co., Ltd.	31-Mar-22	99	91	119	71	35
34	China Merchants Bank Co., Ltd.	31-Dec-22	1,910	959	378	2,491	3
35	China Minsheng Banking Corp., Ltd.	31-Dec-22	1,875	760	475	2,160	297
36	China Zheshang Bank Co., Ltd.	31-Dec-22	343	472	168	647	37

* Some branches hold impairment allowances of head office
# Note that all are Liquidity Maintenance Ratio
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#
33	4,367	3,643	591,658	252,849	2,091	177,643	93.1%
-	620	530	215,669	65,002	494	39,208	41.7%
-	287	242	66,801	50,963	17	1,140	53.5%
-	96	61	102,958	31,605	38	19,102	40.7%
-	306	258	70,105	15,801	2,358	13,630	47.3%
143	(138)	(146)	15,980	8,259	1	12,035	47.8%
-	583	484	61,239	30,071	2	49,442	45.9%
-	1,767	1,439	108,744	48,931	1,443	34,867	59.6%
(9)	118	83	150,713	-	-	-	542.3%
23	748	635	353,564	112,354	2,311	134,639	199.9%
35	(29)	(29)	11,859	3,470	31	252	282.1%
16	161	161	15,790	3,620	181	2,178	144.0%
-	107	107	46,784	5,032	-	2,824	173.4%
-	373	287	45,646	340	-	1,562	727.1%
-	36	29	45,062	24,560	-	11,266	47.3%
-	285	237	25,745	9,056	-	15,688	65.7%
3	153	153	12,852	1,510	21	6,982	133.3%
26	476	404	36,088	10,368	166	25,661	62.0%
-	(185)	(185)	32,537	2,866	-	3,484	207.3%
-	817	692	37,404	194	7	21,738	280.5%
-	117	100	6,288	2,776	6	3,415	81.6%
1	1,208	1,089	315,015	133,026	1,423	198,695	49.2%
-	(5)	(5)	10,060	2,425	1	6,450	54.3%
-	294	252	61,212	9,552	4	12,224	52.8%
-	23	23	3,989	2,528	24	1,440	46.1%
-	341	279	33,978	10,783	112	13,629	93.5%
-	176	148	11,782	4,475	52	9,541	81.7%
-	22	21	7,651	3,400	-	342	106.5%
-	(96)	(96)	9,771	4,788	38	3,053	172.7%
-	1,571	1,309	227,457	90,799	505	100,689	44.8%
-	2,784	2,782	266,127	152,994	7,308	51,643	93.8%
-	567	516	207,401	70,733	838	88,006	87.9%
24	12	12	32,548	7,295	116	5,581	299.3%
-	2,488	2,086	139,875	20,849	183	99,265	74.9%
154	1,709	1,576	193,995	105,482	1,019	123,427	63.0%
-	610	509	43,790	12,598	47	11,416	118.3%

	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	CIMB Bank Berhad	31-Dec-22	23	20	89	(46)	44
38	Citibank, N.A.	31-Dec-22	7,232	2,350	4,506	5,076	(8)
39	Commonwealth Bank of Australia	30-Jun-22	46	24	109	(39)	288
40	Coöperatieve Rabobank U.A.	31-Dec-22	641	401	644	398	97
41	Credit Agricole Corporate And Investment Bank	31-Dec-22	448	2,377	1,442	1,383	75
42	Crédit Industriel et Commercial	31-Dec-22	94	33	61	66	-
43	Credit Suisse AG	31-Dec-22	1,141	2,085	3,113	113	18
44	CTBC Bank Co., Ltd.	31-Dec-22	1,451	418	511	1,358	79
45	DBS Bank Ltd.	31-Dec-22	2,238	1,723	805	3,156	(68)
46	Deutsche Bank Aktiengesellschaft	31-Dec-22	1,790	2,868	4,175	483	137
47	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt Am Main	31-Dec-22	128	77	195	10	(57)
48	E.Sun Commercial Bank, Ltd.	31-Dec-22	708	(32)	145	531	(10)
49	East West Bank	31-Dec-22	308	61	142	227	2
50	EFG Bank AG	31-Dec-22	85	305	489	(99)	-
51	Erste Group Bank AG	31-Dec-22	155	(19)	63	73	4
52	Far Eastern International Bank	31-Dec-22	58	13	37	34	(12)
53	First Abu Dhabi Bank PJSC	31-Dec-22	114	75	104	85	(3)
54	First Commercial Bank, Ltd.	31-Dec-22	333	35	47	321	(3)
55	HDFC Bank Limited	31-Mar-22	52	5	18	39	(5)
56	Hua Nan Commercial Bank, Ltd.	31-Dec-22	357	18	54	321	26
57	Hua Xia Bank Co., Limited	31-Dec-22	459	106	226	339	62
58	ICICI Bank Limited	31-Mar-22	64	211	117	158	(32)
59	Indian Overseas Bank	31-Mar-22	64	61	29	96	170
60	Industrial And Commercial Bank of China Limited	31-Dec-22	1,027	177	436	768	(19)
61	Industrial Bank Co., Ltd.	31-Dec-22	1,841	1,109	512	2,438	608
62	Industrial Bank of Korea	31-Dec-22	131	55	36	150	3
63	ING Bank N.V.	31-Dec-22	425	242	460	207	466
64	Intesa Sanpaolo S.p.A.	31-Dec-22	562	(48)	153	361	255
65	JPMorgan Chase Bank, National Association	31-Dec-22	710	9,898	9,007	1,601	1,537
66	KBC Bank N.V.	31-Dec-22	69	37	63	43	42
67	KEB Hana Bank	31-Dec-22	262	119	52	329	1
68	Kookmin Bank	31-Dec-22	337	131	65	403	(21)
69	Land Bank of Taiwan Co., Ltd.	31-Dec-22	83	6	23	66	(5)
70	LGT Bank AG	31-Dec-22	365	1,743	2,062	46	-
71	Malayan Banking Berhad	31-Dec-22	269	4	183	90	679
72	Mashreq Bank - Public Shareholding Company	31-Dec-22	158	44	60	142	(3)

* Some branches hold impairment allowances of head office
\# Note that all are Liquidity Maintenance Ratio
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#
-	(90)	(237)	11,496	3,691	967	6,520	60.9%
-	5,084	4,038	590,089	102,221	226	421,268	44.0%
-	(327)	(366)	4,415	1,804	687	474	144.0%
-	301	246	83,676	31,118	341	9,024	58.7%
10	1,298	1,092	242,273	57,102	366	41,766	64.4%
-	66	57	24,819	11,413	11	5,591	49.0%
-	95	75	119,252	32,333	42	40,843	193.4%
3	1,276	1,102	93,690	27,402	206	78,904	72.5%
-	3,224	2,709	302,115	154,674	685	69,819	43.8%
-	346	277	166,606	38,665	591	85,250	67.3%
-	67	67	24,164	8,067	59	497	357.1%
-	541	454	50,389	16,381	316	43,299	70.0%
-	225	188	17,188	7,572	76	12,317	42.0%
-	(99)	(99)	14,130	5,252	-	11,875	76.9%
-	69	68	41,117	-	-	-	73.9%
-	46	46	3,888	1,470	20	3,016	53.4%
-	88	74	26,884	2,601	2	14,550	70.0%
-	324	271	16,875	7,224	81	12,940	56.9%
-	44	38	5,602	4,101	41	682	179.9%
(14)	309	256	21,105	6,059	71	17,023	60.8%
-	277	201	64,133	32,151	105	13,586	76.7%
-	190	159	10,727	4,723	61	2,210	61.5%
4	(78)	(78)	6,410	3,546	49	1,642	84.7%
-	787	657	200,688	64,895	67	-	68.7%
-	1,830	1,503	233,100	99,634	1,477	99,953	66.3%
-	147	133	17,232	5,081	18	1,751	227.5%
-	(259)	(216)	87,885	34,503	1,158	5,002	60.9%
-	106	106	62,729	16,264	976	6,730	44.8%
1	63	229	302,879	17,250	1,928	63,655	73.7%
-	1	1	6,046	1,621	52	1,583	49.5%
(6)	334	289	25,373	18,430	144	6,530	61.8%
-	424	369	39,084	27,301	60	1,184	89.3%
(3)	74	71	6,755	3,074	33	2,592	62.3%
-	46	32	59,779	16,517	-	47,738	59.7%
-	(589)	(589)	56,623	30,032	293	36,154	80.1%
-	145	124	11,444	10,958	4	22	135.7%

	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	Mega International Commercial Bank Co., Ltd.	31-Dec-22	434	32	71	395	(5)
74	Mitsubishi UFJ Trust And Banking Corporation	31-Mar-22	228	(84)	58	86	-
75	Mizuho Bank, Ltd.	31-Mar-22	1,644	510	810	1,344	303
76	MUFG Bank, Ltd.	31-Mar-22	1,169	793	1,132	830	(127)
77	National Australia Bank Limited	30-Sep-22	224	(5)	199	20	(5)
78	Natixis	31-Dec-22	461	2,255	1,667	1,049	24
79	NongHyup Bank	31-Dec-22	9	3	29	(17)	11
80	O-Bank Co., Ltd.	31-Dec-22	292	99	125	266	38
81	Oversea-Chinese Banking Corporation Limited	31-Dec-22	726	192	409	509	276
82	Ping An Bank Co., Ltd.	31-Dec-22	366	334	322	378	477
83	Qatar National Bank (Q.P.S.C.)	31-Dec-22	49	5	63	(9)	5
84	Royal Bank of Canada	31-Oct-22	45	772	881	(64)	-
85	Shanghai Commercial & Savings Bank, Ltd. (The)	31-Dec-22	198	32	46	184	127
86	Shanghai Pudong Development Bank Co., Ltd.	31-Dec-22	1,064	1,287	572	1,779	316
87	Shinhan Bank	31-Dec-22	259	144	70	333	(7)
88	Societe Generale	31-Dec-22	511	1,770	1,941	340	67
89	State Bank of India	31-Mar-22	528	82	442	168	(21)
90	State Street Bank And Trust Company	31-Dec-22	298	1,405	1,413	290	-
91	Sumitomo Mitsui Banking Corporation	31-Mar-22	1,649	636	632	1,653	773
92	Sumitomo Mitsui Trust Bank, Limited	31-Mar-22	(19)	294	97	178	53
93	Taipei Fubon Commercial Bank Co., Ltd.	31-Dec-22	671	277	183	765	(17)
94	Taishin International Bank Co., Ltd	31-Dec-22	266	120	169	217	102
95	Taiwan Business Bank, Ltd	31-Dec-22	101	10	38	73	10
96	Taiwan Cooperative Bank, Ltd.	31-Dec-22	120	5	37	88	(34)
97	Taiwan Shin Kong Commercial Bank Co., Ltd.	31-Dec-22	156	4	56	104	(10)
98	UBS AG	31-Dec-22	2,821	15,140	11,223	6,738	(175)
99	UCO Bank	31-Mar-22	60	12	17	55	(7)
100	UniCredit Bank AG	31-Dec-22	380	(224)	289	(133)	(66)
101	Union Bancaire Privée, UBP SA	31-Dec-22	291	310	506	95	-
102	Union Bank of India	31-Mar-22	88	37	24	101	67
103	United Overseas Bank Ltd.	31-Dec-22	2,496	1,068	772	2,792	315
104	Wells Fargo Bank, National Association	31-Dec-22	-	1,346	1,280	66	-
105	Westpac Banking Corporation	30-Sep-22	(20)	(16)	42	(78)	-
106	Woori Bank	31-Dec-22	314	57	35	336	10
107	Yuanta Commercial Bank Co., Ltd.	31-Dec-22	27	6	33	-	(4)
	Total	**2022**	**66,621**	**76,779**	**77,590**	**65,810**	**7,777**

* Some branches hold impairment allowances of head office
# Note that all are Liquidity Maintenance Ratio
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#
(4)	404	344	36,323	7,071	77	33,455	56.6%
-	86	86	30,388	-	-	1,010	107.6%
25	1,016	823	444,774	185,569	611	80,260	56.9%
3	954	911	351,436	191,881	1,926	80,531	43.5%
11	14	4	39,368	1,874	12	12,385	181.1%
-	1,025	882	69,772	47,333	65	6,280	73.4%
-	(28)	(28)	2,097	1,442	10	-	21911.3%
-	228	191	14,687	8,790	120	12,379	51.7%
-	233	192	129,632	62,468	260	24,004	93.3%
-	(99)	(161)	61,301	33,631	623	33,894	88.5%
-	(14)	(14)	42,970	1,013	5	28,191	67.7%
-	(64)	(64)	45,578	1,213	-	9,381	101.0%
-	57	27	9,604	3,123	189	4,129	44.8%
-	1,463	1,221	211,792	64,636	713	87,418	72.2%
-	340	283	38,975	23,343	67	5,497	124.9%
-	273	205	114,579	44,073	409	6,398	50.2%
-	189	159	121,313	32,829	292	4,308	78.5%
-	290	249	66,598	146	-	19,559	85.4%
-	880	800	302,801	153,769	1,301	52,623	50.0%
-	125	160	71,147	14,501	133	19,176	111.1%
(1)	783	668	58,321	16,056	188	42,795	61.7%
-	115	94	25,815	10,386	131	21,581	48.1%
(3)	66	66	5,238	1,649	(44)	3,649	44.6%
-	122	122	6,056	1,976	81	4,814	62.3%
(1)	115	98	10,774	4,246	49	10,374	79.7%
-	6,913	5,718	232,597	104,424	396	179,423	86.4%
-	62	59	8,800	5,681	112	950	309.8%
-	(67)	(67)	34,769	-	-	17	268.7%
-	95	78	24,534	5,909	-	15,116	92.9%
-	34	34	6,387	1,839	360	100	140.2%
-	2,477	2,059	234,325	161,474	1,410	59,995	44.6%
-	66	65	3,955	1,773	-	-	3053.2%
-	(78)	(78)	534	-	-	-	17606.7%
-	326	278	35,304	16,659	43	2,875	91.7%
-	4	3	3,608	196	2	2,008	99.1%
474	**57,559**	**48,500**	**9,564,949**	**3,427,457**	**41,591**	**3,332,722**	**-**

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	Agricultural Bank of China Limited	31-Dec-22	141.2%	0.7%	20.9%	10.1%
2	Australia And New Zealand Banking Group Limited	30-Sep-22	164.5%	0.5%	42.1%	58.8%
3	Banco Bilbao Vizcaya Argentaria S.A.	31-Dec-22	4468.9%	0.6%	39.5%	51.2%
4	Banco Santander, S.A.	31-Dec-22	165.3%	0.3%	69.3%	89.1%
5	Bangkok Bank Public Company Limited	31-Dec-22	98.6%	0.6%	26.6%	28.9%
6	Bank J. Safra Sarasin AG	31-Dec-22	68.6%	1.2%	57.0%	99.1%
7	Bank Julius Baer & Co. Ltd.	31-Dec-22	60.8%	1.1%	70.5%	77.9%
8	Bank of America, National Association	31-Dec-22	136.2%	1.1%	55.0%	54.8%
9	Bank of China Limited	31-Dec-22	N/A	0.1%	45.6%	54.4%
10	Bank of Communications Co., Ltd.	31-Dec-22	81.7%	0.6%	27.1%	46.7%
11	Bank of Dongguan Co., Ltd.	31-Dec-22	1364.7%	1.5%	9.4%	94.9%
12	Bank of India	31-Mar-22	157.9%	0.4%	74.6%	18.3%
13	Bank of Montreal	31-Oct-22	178.2%	0.1%	90.6%	68.4%
14	Bank of New York Mellon (The)	31-Dec-22	21.8%	0.7%	60.3%	60.2%
15	Bank of Nova Scotia (The)	31-Oct-22	218.0%	0.5%	27.6%	87.7%
16	Bank of Singapore Limited	31-Dec-22	57.7%	0.5%	86.9%	71.6%
17	Bank of Taiwan	31-Dec-22	21.3%	1.1%	3.3%	24.5%
18	Bank Sinopac	31-Dec-22	39.8%	1.5%	31.1%	24.6%
19	Banque Pictet & Cie Sa	31-Dec-22	82.3%	0.4%	74.3%	162.5%
20	Barclays Bank PLC	31-Dec-22	0.9%	0.2%	98.6%	71.1%
21	BDO Unibank, Inc.	31-Dec-22	81.1%	2.1%	15.7%	22.9%
22	BNP Paribas	31-Dec-22	66.2%	0.9%	57.9%	73.6%
23	CA Indosuez (Switzerland) SA	31-Dec-22	37.6%	0.6%	83.5%	101.5%
24	Canadian Imperial Bank of Commerce	31-Oct-22	78.1%	0.2%	84.0%	42.3%
25	Cathay Bank	31-Dec-22	173.9%	1.5%	17.1%	64.3%
26	Cathay United Bank Company, Limited	31-Dec-22	78.3%	1.1%	42.9%	35.0%
27	Chang Hwa Commercial Bank, Ltd.	31-Dec-22	46.4%	1.6%	11.2%	19.1%
28	Chiba Bank, Ltd. (The)	31-Mar-22	994.2%	0.5%	4.3%	53.2%
29	China Bohai Bank Co., Ltd.	31-Dec-22	155.6%	0.5%	31.3%	239.1%
30	China Construction Bank Corporation	31-Dec-22	89.7%	0.5%	43.7%	34.9%
31	China Development Bank	31-Dec-22	282.1%	0.6%	0.1%	14.6%
32	China Everbright Bank Co., Ltd.	31-Dec-22	79.4%	0.6%	29.2%	24.4%
33	China Guangfa Bank Co., Ltd.	31-Mar-22	128.6%	0.4%	47.9%	62.6%
34	China Merchants Bank Co., Ltd.	31-Dec-22	20.8%	1.3%	33.4%	13.2%
35	China Minsheng Banking Corp., Ltd.	31-Dec-22	84.6%	0.9%	28.8%	13.2%
36	China Zheshang Bank Co., Ltd.	31-Dec-22	109.9%	0.7%	57.9%	20.6%

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 allowance made against impaired advances	Stage 3 expected credit loss allowance made against impaired advances as percentage of gross impaired advances	Collateral for impaired advances
0.6%	137	0.1%	133	97.1%	-
0.3%	55	0.1%	55	100.0%	-
0.4%	154	0.3%	8	5.2%	154
0.1%	-	0.0%	-	N/A	-
0.4%	226	1.4%	212	93.8%	14
-0.8%	-	0.0%	-	N/A	-
0.7%	-	0.0%	-	N/A	-
1.3%	2,383	4.9%	895	37.6%	-
0.1%	-	N/A	-	N/A	-
0.2%	2,501	2.2%	2,126	85.0%	1,223
-0.4%	-	0.0%	-	N/A	-
1.0%	17	0.5%	17	100.0%	4
0.2%	-	0.0%	-	N/A	-
0.5%	-	0.0%	-	N/A	-
0.1%	-	0.0%	-	N/A	-
0.8%	-	0.0%	-	N/A	-
1.1%	-	0.0%	-	N/A	-
1.1%	58	0.6%	41	70.7%	-
-0.9%	-	0.0%	-	N/A	-
2.9%	-	0.0%	-	N/A	-
1.6%	-	0.0%	-	N/A	-
0.3%	1,435	1.1%	842	58.7%	141
-0.1%	-	0.0%	-	N/A	-
0.6%	-	0.0%	-	N/A	-
0.6%	57	2.3%	-	0.0%	21
0.9%	-	0.0%	-	N/A	-
1.2%	232	5.2%	5	2.2%	-
0.3%	-	0.0%	-	N/A	-
-1.1%	-	0.0%	-	N/A	-
0.6%	-	0.0%	-	N/A	-
1.0%	5,310	3.5%	4,136	77.9%	62
0.2%	3,145	4.4%	432	13.7%	1,900
0.0%	-	0.0%	-	N/A	-
1.4%	21	0.1%	15	71.4%	-
0.8%	1,045	1.0%	550	52.6%	-
1.0%	-	0.0%	-	N/A	-

	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	CIMB Bank Berhad	31-Dec-22	41.8%	0.2%	46.5%	207.0%
38	Citibank, N.A.	31-Dec-22	24.2%	1.3%	24.5%	47.0%
39	Commonwealth Bank of Australia	30-Jun-22	235.7%	0.8%	34.3%	155.7%
40	Coöperatieve Rabobank U.A.	31-Dec-22	341.1%	0.7%	38.5%	61.8%
41	Credit Agricole Corporate And Investment Bank	31-Dec-22	135.8%	0.2%	84.1%	51.0%
42	Crédit Industriel et Commercial	31-Dec-22	203.9%	0.4%	26.0%	48.0%
43	Credit Suisse AG	31-Dec-22	79.1%	0.9%	64.6%	96.5%
44	CTBC Bank Co., Ltd.	31-Dec-22	34.5%	1.7%	22.4%	27.3%
45	DBS Bank Ltd.	31-Dec-22	220.6%	0.7%	43.5%	20.3%
46	Deutsche Bank Aktiengesellschaft	31-Dec-22	44.7%	1.1%	61.6%	89.6%
47	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt Am Main	31-Dec-22	1611.3%	0.6%	37.6%	95.1%
48	E.Sun Commercial Bank, Ltd.	31-Dec-22	37.1%	1.5%	-4.7%	21.4%
49	East West Bank	31-Dec-22	60.9%	1.9%	16.5%	38.5%
50	EFG Bank AG	31-Dec-22	44.2%	0.6%	78.2%	125.4%
51	Erste Group Bank AG	31-Dec-22	N/A	0.5%	-14.0%	46.3%
52	Far Eastern International Bank	31-Dec-22	48.1%	1.5%	18.3%	52.1%
53	First Abu Dhabi Bank PJSC	31-Dec-22	17.9%	0.3%	39.7%	55.0%
54	First Commercial Bank, Ltd.	31-Dec-22	55.2%	1.9%	9.5%	12.8%
55	HDFC Bank Limited	31-Mar-22	595.3%	0.9%	8.8%	31.6%
56	Hua Nan Commercial Bank, Ltd.	31-Dec-22	35.2%	1.6%	4.8%	14.4%
57	Hua Xia Bank Co., Limited	31-Dec-22	235.9%	0.9%	18.8%	40.0%
58	ICICI Bank Limited	31-Mar-22	211.0%	0.6%	76.7%	42.5%
59	Indian Overseas Bank	31-Mar-22	213.0%	1.0%	48.8%	23.2%
60	Industrial And Commercial Bank of China Limited	31-Dec-22	N/A	0.5%	14.7%	36.2%
61	Industrial Bank Co., Ltd.	31-Dec-22	98.2%	0.8%	37.6%	17.4%
62	Industrial Bank of Korea	31-Dec-22	289.1%	0.8%	29.6%	19.4%
63	ING Bank N.V.	31-Dec-22	666.6%	0.5%	36.3%	69.0%
64	Intesa Sanpaolo S.p.A.	31-Dec-22	227.2%	0.9%	-9.3%	29.8%
65	JPMorgan Chase Bank, National Association	31-Dec-22	24.1%	0.3%	93.3%	84.9%
66	KBC Bank N.V.	31-Dec-22	99.1%	1.1%	34.9%	59.4%
67	KEB Hana Bank	31-Dec-22	280.0%	1.1%	31.2%	13.6%
68	Kookmin Bank	31-Dec-22	2300.8%	0.9%	28.0%	13.9%
69	Land Bank of Taiwan Co., Ltd.	31-Dec-22	117.3%	1.2%	6.7%	25.8%
70	LGT Bank AG	31-Dec-22	34.6%	0.7%	82.7%	97.8%
71	Malayan Banking Berhad	31-Dec-22	82.3%	0.5%	1.5%	67.0%
72	Mashreq Bank - Public Shareholding Company	31-Dec-22	49790.9%	1.4%	21.8%	29.7%

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 allowance made against impaired advances	Stage 3 expected credit loss allowance made against impaired advances as percentage of gross impaired advances	Collateral for impaired advances
-2.1%	1,224	33.2%	967	79.0%	-
0.7%	-	0.0%	-	N/A	-
-6.4%	766	42.5%	685	89.4%	N/A
0.3%	758	2.4%	319	42.1%	288
0.5%	297	0.5%	161	54.2%	N/A
0.3%	-	0.0%	-	N/A	-
0.1%	8	0.0%	8	100.0%	-
1.3%	100	0.4%	80	80.0%	9
0.8%	344	0.2%	344	100.0%	-
0.2%	961	2.5%	513	53.4%	175
0.3%	81	1.0%	59	72.8%	-
1.0%	-	0.0%	-	N/A	-
1.2%	-	0.0%	-	N/A	-
-0.7%	-	0.0%	-	N/A	-
0.2%	-	N/A	-	N/A	-
1.2%	-	0.0%	-	N/A	-
0.2%	-	0.0%	-	N/A	-
1.6%	-	0.0%	-	N/A	-
0.6%	-	0.0%	-	N/A	-
1.2%	-	0.0%	-	N/A	-
0.4%	-	0.0%	-	N/A	-
1.4%	2	0.0%	-	0.0%	-
-1.3%	304	8.6%	21	6.9%	46
0.3%	-	0.0%	-	N/A	-
0.7%	844	0.8%	401	47.5%	531
0.8%	-	0.0%	-	N/A	-
-0.3%	3,233	9.4%	1,119	34.6%	2,435
0.2%	1,223	7.5%	912	74.6%	72
0.1%	332	1.9%	-	0.0%	-
0.0%	88	5.4%	49	55.7%	-
1.2%	262	1.4%	119	45.4%	44
1.0%	-	0.0%	-	N/A	-
1.1%	-	0.0%	-	N/A	-
0.1%	-	0.0%	-	N/A	-
-1.1%	2,742	9.1%	257	9.4%	60
1.1%	-	0.0%	-	N/A	-

	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	Mega International Commercial Bank Co., Ltd.	31-Dec-22	20.9%	1.2%	6.9%	15.2%
74	Mitsubishi UFJ Trust And Banking Corporation	31-Mar-22	0.0%	0.7%	-58.3%	40.3%
75	Mizuho Bank, Ltd.	31-Mar-22	230.4%	0.3%	23.7%	37.6%
76	MUFG Bank, Ltd.	31-Mar-22	235.9%	0.3%	40.4%	57.7%
77	National Australia Bank Limited	30-Sep-22	15.0%	0.5%	-2.3%	90.9%
78	Natixis	31-Dec-22	752.7%	0.6%	83.0%	61.4%
79	NongHyup Bank	31-Dec-22	N/A	0.9%	25.0%	241.7%
80	O-Bank Co., Ltd.	31-Dec-22	70.0%	2.1%	25.3%	32.0%
81	Oversea-Chinese Banking Corporation Limited	31-Dec-22	259.2%	0.6%	20.9%	44.6%
82	Ping An Bank Co., Ltd.	31-Dec-22	97.4%	0.6%	47.7%	46.0%
83	Qatar National Bank (Q.P.S.C.)	31-Dec-22	3.6%	0.1%	9.3%	116.7%
84	Royal Bank of Canada	31-Oct-22	12.9%	0.1%	94.5%	107.8%
85	Shanghai Commercial & Savings Bank, Ltd. (The)	31-Dec-22	71.1%	2.2%	13.9%	20.0%
86	Shanghai Pudong Development Bank Co., Ltd.	31-Dec-22	73.1%	0.5%	54.7%	24.3%
87	Shinhan Bank	31-Dec-22	423.4%	0.7%	35.7%	17.4%
88	Societe Generale	31-Dec-22	682.5%	0.4%	77.6%	85.1%
89	State Bank of India	31-Mar-22	755.3%	0.4%	13.4%	72.5%
90	State Street Bank And Trust Company	31-Dec-22	0.7%	0.5%	82.5%	83.0%
91	Sumitomo Mitsui Banking Corporation	31-Mar-22	289.7%	0.5%	27.8%	27.7%
92	Sumitomo Mitsui Trust Bank, Limited	31-Mar-22	74.9%	0.0%	106.9%	35.3%
93	Taipei Fubon Commercial Bank Co., Ltd.	31-Dec-22	37.1%	1.1%	29.2%	19.3%
94	Taishin International Bank Co., Ltd	31-Dec-22	47.5%	1.1%	31.1%	43.8%
95	Taiwan Business Bank, Ltd	31-Dec-22	46.4%	2.0%	9.0%	34.2%
96	Taiwan Cooperative Bank, Ltd.	31-Dec-22	39.4%	1.6%	4.0%	29.6%
97	Taiwan Shin Kong Commercial Bank Co., Ltd.	31-Dec-22	40.5%	1.4%	2.5%	35.0%
98	UBS AG	31-Dec-22	58.0%	1.1%	84.3%	62.5%
99	UCO Bank	31-Mar-22	586.2%	0.8%	16.7%	23.6%
100	UniCredit Bank AG	31-Dec-22	0.0%	0.7%	-143.6%	185.3%
101	Union Bancaire Privée, UBP SA	31-Dec-22	39.1%	1.2%	51.6%	84.2%
102	Union Bank of India	31-Mar-22	1479.0%	0.9%	29.6%	19.2%
103	United Overseas Bank Ltd.	31-Dec-22	266.8%	1.1%	30.0%	21.7%
104	Wells Fargo Bank, National Association	31-Dec-22	N/A	0.0%	100.0%	95.1%
105	Westpac Banking Corporation	30-Sep-22	N/A	-1.4%	44.4%	-116.7%
106	Woori Bank	31-Dec-22	577.9%	0.9%	15.4%	9.4%
107	Yuanta Commercial Bank Co., Ltd.	31-Dec-22	9.7%	0.7%	18.2%	100.0%
	Total	**2022**	**101.6%**	**0.7%**	**53.5%**	**54.1%**

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 allowance made against impaired advances	Stage 3 expected credit loss allowance made against impaired advances as percentage of gross impaired advances	Collateral for impaired advances
0.9%	-	0.0%	-	N/A	-
0.3%	-	N/A	-	N/A	-
0.2%	612	0.3%	610	99.7%	1
0.2%	-	0.0%	-	N/A	-
0.0%	4	0.2%	-	0.0%	7
1.1%	65	0.1%	-	0.0%	-
-2.7%	-	0.0%	-	N/A	-
1.4%	61	0.7%	22	36.1%	42
0.2%	20	0.0%	20	100.0%	-
-0.3%	-	0.0%	-	N/A	-
0.0%	-	0.0%	-	N/A	-
-0.2%	-	0.0%	-	N/A	-
0.3%	716	22.9%	153	21.4%	-
0.6%	369	0.6%	207	56.1%	-
0.7%	-	0.0%	-	N/A	-
0.2%	444	1.0%	341	76.8%	108
0.1%	-	0.0%	-	N/A	-
0.4%	-	0.0%	-	N/A	-
0.3%	1,006	0.7%	529	52.6%	-
0.2%	133	0.9%	133	100.0%	-
1.1%	27	0.2%	27	100.0%	-
0.4%	102	1.0%	102	100.0%	-
1.3%	34	2.1%	(19)	-55.9%	-
1.6%	180	9.1%	53	29.4%	-
0.9%	-	0.0%	-	N/A	-
2.3%	1,934	1.9%	396	20.5%	1,538
0.8%	82	1.4%	-	0.0%	-
-0.1%	-	N/A	-	N/A	-
0.3%	-	0.0%	-	N/A	-
0.3%	300	16.3%	300	100.0%	-
0.9%	2,398	1.5%	1,079	45.0%	713
1.2%	-	0.0%	-	N/A	-
-5.3%	-	N/A	-	N/A	-
0.8%	-	0.0%	-	N/A	-
0.1%	-	0.0%	-	N/A	-
0.5%	**38,832**	**1.1%**	**19,434**	**50.0%**	**9,588**

Virtual banks – Financial highlights

HK$ million		Year ended	Financial highlights: 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	Profit before tax	Net profit after tax
1	Airstar Bank Limited	31-Dec-22	63	2	230	(165)	34	1	(200)	(200)
2	Ant Bank (Hong Kong) Limited	31-Dec-22	15	2	219	(202)	-	1	(203)	(203)
3	Fusion Bank Limited	31-Dec-22	8	(8)	525	(525)	8	-	(533)	(533)
4	Livi Bank Limited	31-Dec-22	8	9	710	(693)	16	6	(715)	(715)
5	Mox Bank Limited	31-Dec-22	114	56	694	(524)	98	9	(631)	(631)
6	Ping An OneConnect Bank (Hong Kong) Limited	31-Dec-22	94	3	243	(146)	11	-	(157)	(157)
7	Welab Bank Limited	31-Dec-22	34	10	465	(424)	34	-	(458)	(458)
8	ZA Bank Limited	31-Dec-22	192	82	723	(449)	28	22	(499)	(499)
	Total	**2022**	**528**	**156**	**3,809**	**(3,128)**	**229**	**39**	**(3,396)**	**(3,396)**

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
2,660	839	38	1,799	758	49.8%	176.2%	44.5%	2.1%	3.1%	353.8%	-6.8%	-23.3%
1,443	48	1	354	1,017	241.1%	321.1%	13.3%	0.9%	11.8%	1288.2%	-11.8%	-18.3%
4,371	967	7	3,437	607	35.3%	209.6%	27.9%	0.2%	1902.0%	-131881.2%	-12.1%	-66.8%
4,098	1,318	14	3,098	781	43.4%	154.6%	42.1%	0.2%	52.9%	4176.5%	-16.9%	-72.4%
10,414	5,044	87	8,365	1,383	19.0%	44.2%	59.3%	1.3%	32.9%	408.2%	-7.3%	-52.0%
3,193	1,799	13	2,147	848	98.3%	124.8%	83.2%	3.3%	3.1%	250.5%	-5.5%	-20.3%
2,689	1,443	33	1,978	502	31.5%	152.1%	71.3%	1.2%	22.7%	1056.8%	-16.3%	-90.4%
11,608	4,928	47	9,172	2,159	25.3%	76.9%	53.2%	1.8%	29.9%	263.9%	-4.7%	-21.5%
40,476	**16,386**	**240**	**30,350**	**8,055**	**-**	**-**	**53.2%**	**1.4%**	**22.8%**	**556.9%**	**-8.9%**	**-39.6%**

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