

1 March 2013 | 7 pages

Banks (Citi)  
Asia Pacific | Hong Kong

## Hong Kong Banks

### Alert: Loan Growth Acceleration Confirmed in Jan 2013; Setting Rational Expectations Despite BEA's Beat in 2H12

#### ■ Industry Overview

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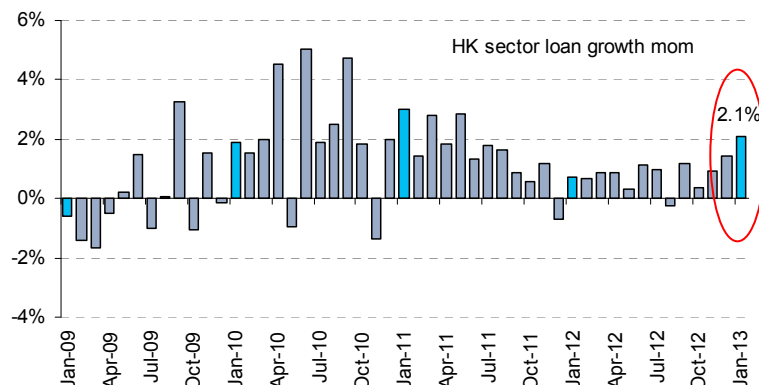
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- **Early loan growth acceleration; setting the stage to beat 2013E** - Sector loan growth came in strong in January, at 2.1% mom or 28% when annualized. This reaffirms our view that **loan growth will drive re-rating** and excess liquidity was like **arrows on the bow**. We believe street consensus loan growth is at 5-8% for 2013E; the January data reaffirms potential for positive surprise despite recent property measures. Reiterate positive sector stance.
- **Loan growth driven by domestic ex-mortgages** - Mortgage loan growth in January was only 0.6%. Growth was driven by a 6.2% mom increase of trade-related financing, a 2.0% mom growth in domestic HK loans, and a 1.2% mom growth in offshore loans. We expect non-mortgage loans will keep growing faster than mortgages in 2013.
- **Setting the right NIM expectations: not to overly bullish due to BEA's beat** - BEA's 2H12 result showed strong beat on non-China NIM, up c22-25bp hoh by our estimates; improvement driven by lower funding costs and positive loan re-pricing, thanks partly to cross-border businesses. This contrasts our HK local sector NIM base case estimate of negative c1-3bp hoh in 2H12; while loan growth accelerated in late 2012, benefit may only be delivered in early 2013. Investors should NOT overly expect rest of HK banks to replicate BEA's strong HK NIM expansion.
- **Liquidity still strong in Jan, fastest mom deposit growth in 27-mth** - thanks partly to international liquidity inflow and the favorable equity markets, customer deposits was up 2.9% mom. Sector loan-to-deposit ratio dropped to 61.8%.

Figure 1. Fast growth in Loans & Deposits, LDR at 61.8%

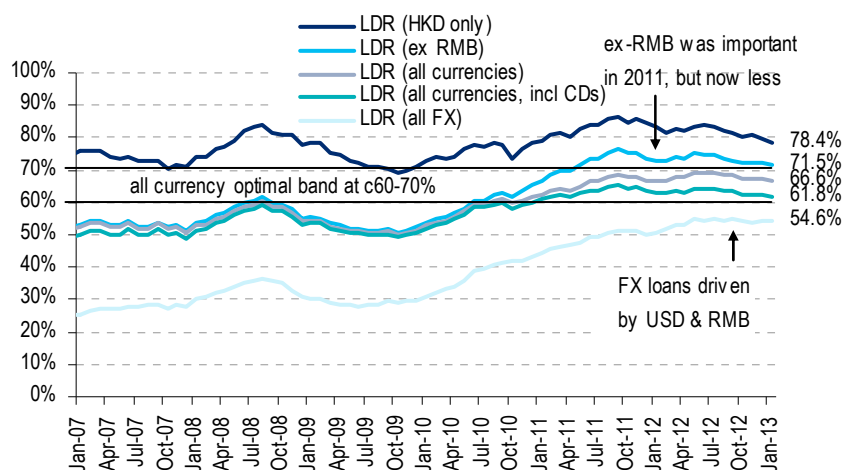


Source: Citi Research, HKMA

#### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

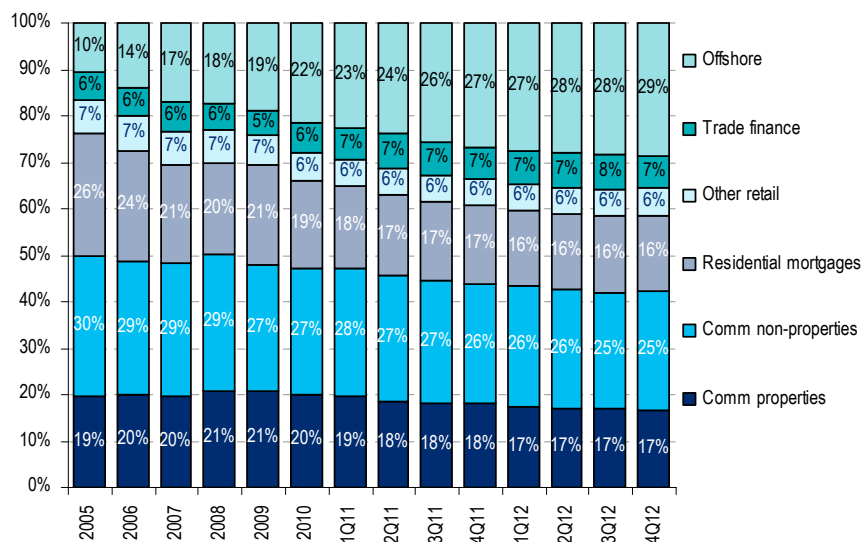
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Figure 2. Sector loan-to-deposit ratio (incl CDs) within optimal range of 60-70%



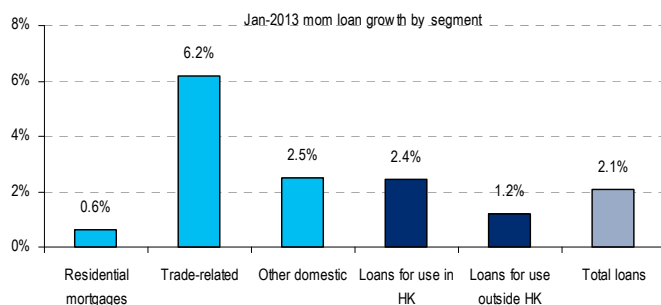
Source: Citi Research, HKMA

Figure 3. Sector loan mix (quarterly data)



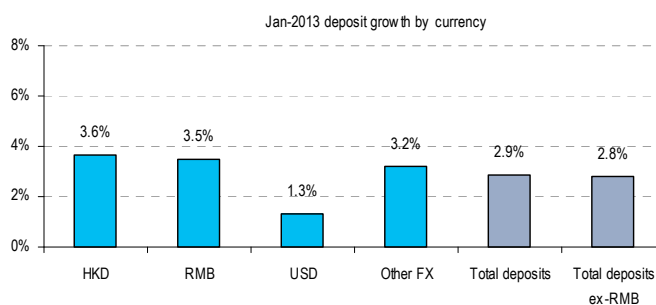
Source: Citi Research, HKMA

Figure 4. Loan growth by segment Jan-2013 mom



Source: Citi Research, HKMA

Figure 5. Deposit growth by currency Jan-2013 mom



Source: Citi Research, HKMA

## Appendix A-1

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