

Developments in the Banking Sector

By Banking Supervision Department

HIGHLIGHTS OF KEY TRENDS

Banking sector performance

Overview

- The Hong Kong banking sector stayed strong and resilient, underpinned by robust capital and liquidity positions. The asset quality of the banking sector improved in the first quarter of 2026.

Profitability

- The aggregate pre-tax operating profit of retail banks increased by 22.3% year on year in the first quarter of 2026 (Exhibit 1). This was mainly attributable to increases in income from investments held for trading, dividends from subsidiaries and associated companies, and income from fees and commissions, which were partly offset by a decrease in income from foreign exchange and derivatives operations. Retail banks' net interest margin widened to 1.53% in the first quarter of 2026 from 1.51% in the same period last year (Exhibit 2).

Balance sheet trends

- Total loans of the banking sector increased by 3.0% in the first quarter of 2026 (Exhibit 5). Among the total, loans for use in Hong Kong, loans for use outside Hong Kong and trade finance increased by 2.7%, 3.1% and 7.9% respectively. Mainland-related lending increased by 4.3% during the same period (Exhibit 6).
- Total deposits increased by 1.0% in the first quarter of 2026. Among the total, Hong Kong dollar deposits increased by 1.9% while US dollar deposits decreased by 0.8%. The overall loan-to-deposit ratio increased to 53.2% at the end of March 2026 from 52.2% at the end of December 2025 (Exhibit 7).

Loan quality, liquidity conditions and capital adequacy

- The classified loan ratio of the banking sector decreased to 1.87% at the end of March 2026 from 2.01% at the end of December 2025. The classified loan ratio for Mainland-related lending also decreased to 1.79% from 1.94% a quarter earlier (Exhibit 10). The delinquency ratios of credit card lending and residential mortgage loans remained at low levels of 0.39% and 0.13% respectively at the end of March 2026 (Exhibit 12).
- The banking sector continued to be both liquid and well-capitalised. The average Liquidity Coverage Ratio of category 1 institutions was 160.2% in the first quarter of 2026, which is well above the statutory minimum requirement of 100% (Exhibit 14). The total capital ratio of locally incorporated authorized institutions (AIs) stood at 24.9% at the end of March 2026 (Exhibit 16), which is well above the international minimum requirement of 8%.

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

Banking sector performance

Profitability

Exhibit 1

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

Key items	Change in pre-tax operating profit Q1 2026 vs Q1 2025	
	Percentage change	Contribution to the percentage change in pre-tax operating profit (ppt)
Income from investments held for trading	+76.2%	+9.3
Dividends from subsidiaries and associated companies	+1,174.3%	+9.3
Income from fees and commissions	+19.3%	+6.4
Income from foreign exchange and derivatives operations	-27.3%	-9.3
Pre-tax operating profit	+22.3%	

Exhibit 2

Net interest margin (year-to-date annualised) of retail banks widened in the first quarter of 2026

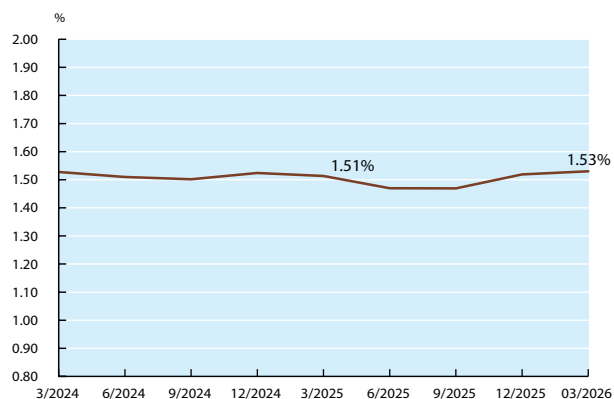
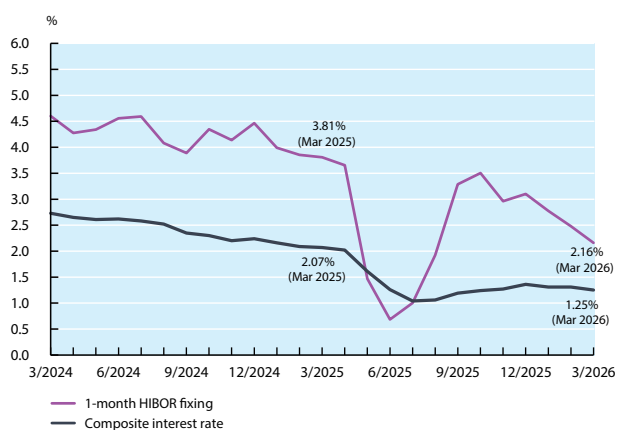


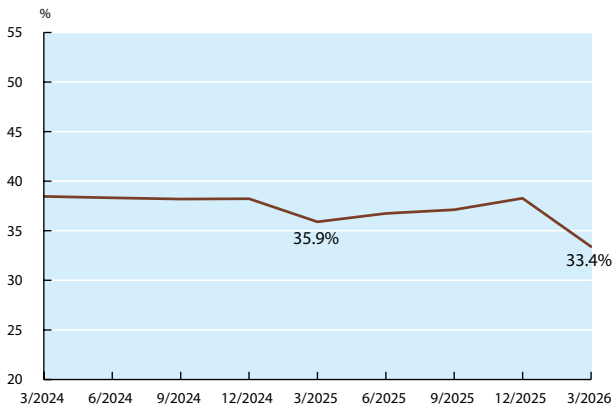
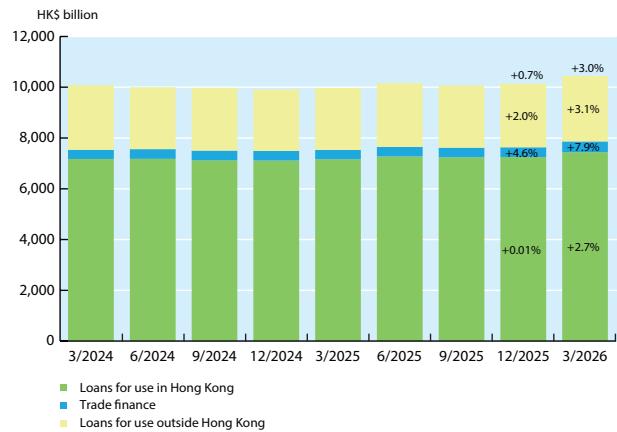
Exhibit 3

Both the Hong Kong dollar interbank interest rates and composite interest rate trended lower in the first quarter of 2026



Notes:

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

Exhibit 4**Cost-to-income ratio (year to date) of retail banks decreased in the first quarter of 2026****Loans and deposits****Exhibit 5****Total loans increased by 3.0% in the first quarter of 2026**

Notes:

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

Within loans for use in Hong Kong, the percentage changes in the amount of credit extended to the key economic sectors in the first quarter of 2026 were:

Key items	Percentage change	Contribution to the percentage change in loans for use in Hong Kong (ppt)
Loans to professional & private individuals for other private purposes	+6.1%	+0.8
Financial concerns	+4.7%	+0.6
Manufacturing	+7.0%	+0.3
Loans for use in Hong Kong	+2.7%	

Exhibit 6**Mainland-related lending**

	Dec 2025 HK\$ billion	Mar 2026 HK\$ billion
Mainland-related loans excluding trade finance	3,733	3,855
Trade finance	230	278
Total	3,963	4,133

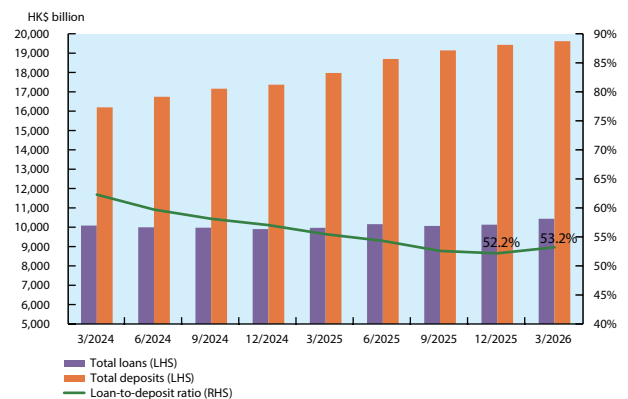
Exhibit 7**Total loan-to-deposit ratio increased in the first quarter of 2026**

Exhibit 8

Hong Kong dollar loan-to-deposit ratio decreased in the first quarter of 2026

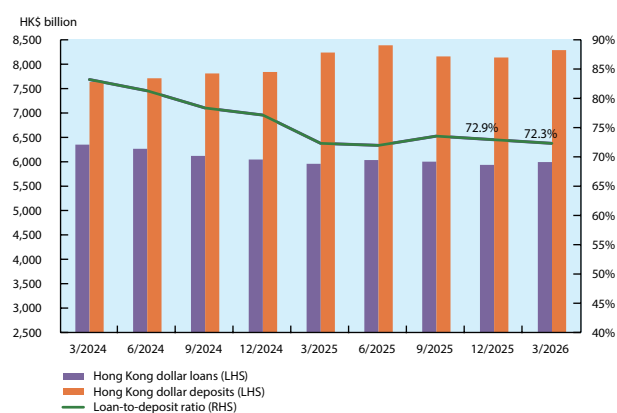
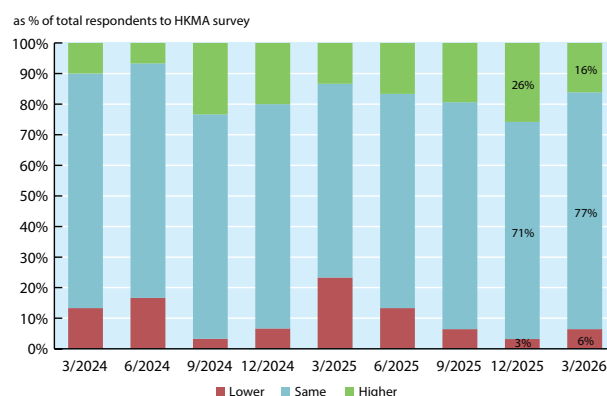


Exhibit 9

A majority of respondents to the Hong Kong Monetary Authority Opinion Survey on Credit Conditions Outlook expected loan demand to remain the same or strengthen in the next three months



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

Loan quality

Exhibit 10

Quality of loans and advances of the banking sector*

	Mar 2025	Jun 2025	Sep 2025	Dec 2025	Mar 2026
	<i>% of total loans</i>				
Special mention loans	2.25	2.16	2.17	2.12	2.20
Classified loans (gross)	1.98	1.97	1.98	2.01	1.87
of which:					
Substandard	0.77	0.77	0.79	0.83	0.73
Doubtful	0.91	0.93	0.92	0.91	0.91
Loss	0.30	0.27	0.28	0.27	0.23
Classified loans (net of specific provisions)	1.22	1.22	1.25	1.30	1.19
Overdue > 3 months and rescheduled loans	1.64	1.58	1.60	1.54	1.46
of which:					
Overdue > 3 months	1.42	1.37	1.34	1.27	1.15
Rescheduled loans	0.22	0.20	0.26	0.27	0.31
	<i>% of Mainland-related lending</i>				
Classified loans (gross) of Mainland-related lending**	2.27	2.16	1.99	1.94	1.79

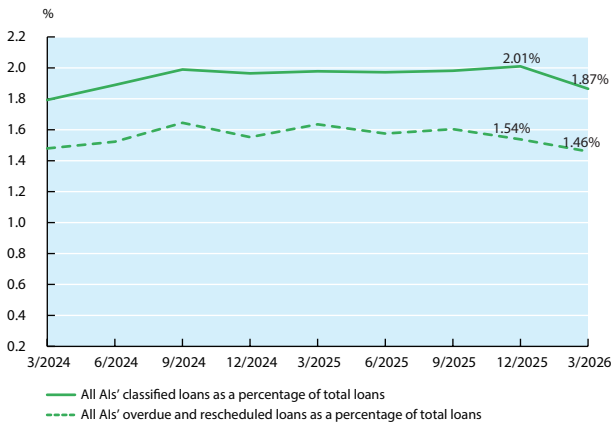
Note: Figures may not add up to total due to rounding.

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

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

Exhibit 11

The banking sector's overall asset quality improved in the first quarter of 2026



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

Exhibit 12

Delinquency ratio of residential mortgages edged down while the delinquency ratio of credit card lending increased in the first quarter of 2026

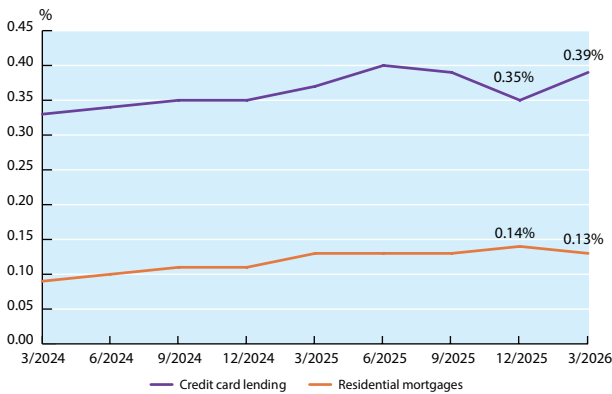
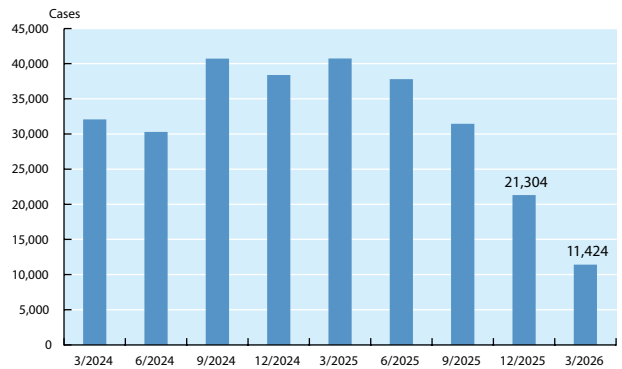


Exhibit 13

The number of negative equity cases* continued to decrease in the first quarter of 2026

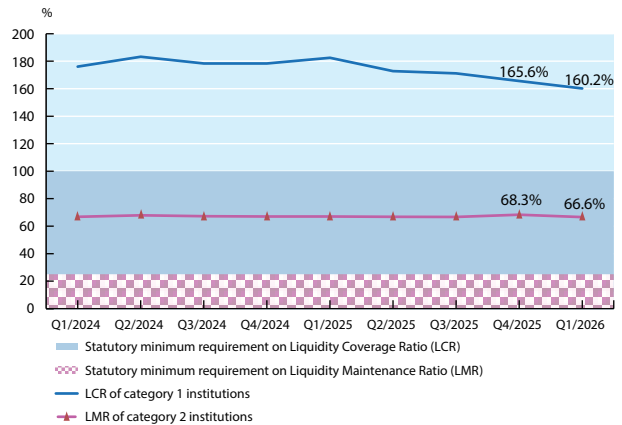


* These cases were mainly related to residential mortgage loans under the mortgage insurance programme, which generally have a higher loan-to-value ratio.

Liquidity conditions

Exhibit 14

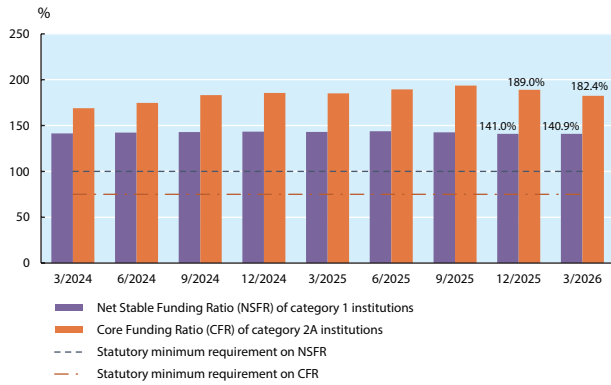
Liquidity positions of AIs remained strong



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

Exhibit 15

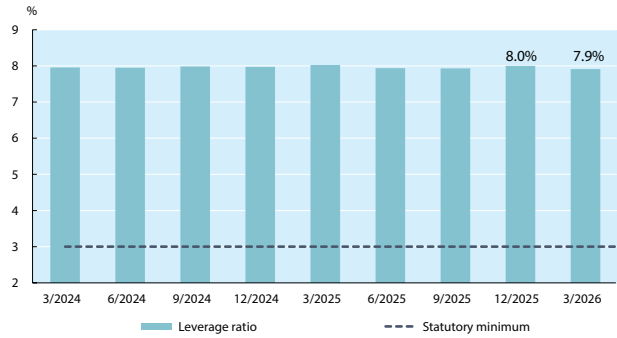
Funding positions of AIs were largely stable



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

Exhibit 17

Leverage ratio stayed at a healthy level

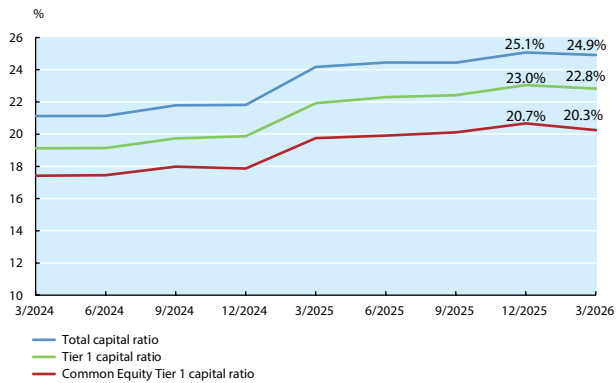


Note: Leverage ratio is defined as the ratio of the AI's Tier 1 capital to its exposure measure, where the exposure measure includes both on-balance sheet and off-balance sheet exposures. All locally incorporated AIs are required to maintain a leverage ratio of not less than 3%.

Capital adequacy

Exhibit 16

Capital positions of locally incorporated AIs remained robust



APPENDIX

KEY PERFORMANCE INDICATORS OF BANKING SECTOR¹ (%)

	Mar 2025	Dec 2025	Mar 2026
Interest rates			
1-month HIBOR fixing ² (quarterly average)	3.88	3.19	2.47
3-month HIBOR fixing (quarterly average)	3.94	3.31	2.65
BLR ³ and 1-month HIBOR fixing spread (quarterly average)	1.37	1.85	2.53
BLR and 3-month HIBOR fixing spread (quarterly average)	1.31	1.73	2.35
Composite interest rate ⁴	2.07	1.36	1.25
Balance sheet developments⁵	All AIs		
Total deposits	+3.5	+1.5	+1.0
Hong Kong dollar	+5.1	-0.3	+1.9
Foreign currency	+2.2	+2.8	+0.3
Total loans	+0.6	+0.7	+3.0
Domestic lending ⁶	+0.5	+0.2	+3.0
Loans for use outside Hong Kong ⁷	+1.1	+2.0	+3.1
Negotiable instruments			
Negotiable certificates of deposit (NCDs) issued	-0.1	+13.4	+3.9
Negotiable debt instruments held (excluding NCDs)	+4.0	+0.9	+4.8
Asset quality			
As a percentage of total loans ⁸			
Pass loans	95.77	95.87	95.93
Special mention loans	2.25	2.12	2.20
Classified loans ⁹ (gross)	1.98	2.01	1.87
Classified loans (net) ¹⁰	1.22	1.30	1.19
Overdue > 3 months and rescheduled loans	1.64	1.54	1.46
Classified loan ratio (gross) of Mainland related lending ¹¹	2.27	1.94	1.79
Liquidity ratios (consolidated)			
Liquidity Coverage Ratio — applicable to category 1 institutions (quarterly average)	182.5	165.6	160.2
Liquidity Maintenance Ratio — applicable to category 2 institutions (quarterly average)	66.6	68.3	66.6
Net Stable Funding Ratio — applicable to category 1 institutions	143.0	141.0	140.9
Core Funding Ratio — applicable to category 2A institutions	185.1	189.0	182.4
Profitability	Retail banks		
Loan impairment charges as a percentage of average total assets (year-to-date annualised)	0.15	0.21	0.09
Net interest margin (year-to-date annualised)	1.51	1.52	1.53
Cost-to-income ratio (year-to-date)	35.9	38.2	33.4
Asset quality	Surveyed institutions		
Delinquency ratio of residential mortgage loans	0.13	0.14	0.13
Credit card lending			
Delinquency ratio	0.37	0.35	0.39
Charge-off ratio — quarterly annualised	2.43	2.50	2.25
— year-to-date annualised	2.43	2.37	2.25
Capital adequacy (consolidated)	All locally incorporated AIs		
Common Equity Tier 1 capital ratio	19.8	20.7	20.3
Tier 1 capital ratio	21.9	23.0	22.8
Total capital ratio	24.2	25.1	24.9
Leverage ratio	8.0	8.0	7.9

Notes:

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