

# Developments in the Banking Sector

by Banking Supervision Department

## HIGHLIGHTS OF KEY TRENDS

### Banking sector performance

#### Overview

- The Hong Kong banking sector remained strong, well capitalised and liquid. The asset quality of the banking sector was manageable with a slight uptick in the classified loan ratio during the first quarter of 2025.
- Total deposits increased by 3.5% in the first quarter of 2025. Among the total, Hong Kong dollar deposits and US dollar deposits increased by 5.1% and 1.7% respectively. The overall loan-to-deposit ratio decreased to 55.5% at the end of March 2025 from 57.0% at the end of December 2024 (Exhibit 7).

#### Profitability

- The aggregate pre-tax operating profit of retail banks increased by 15.8% year on year in the first quarter of 2025 (Exhibit 1). This was mainly attributable to increases in income from foreign exchange and derivatives operations and income from fees and commissions, which were partly offset by a decrease in income from investments held for trading. Retail banks' net interest margin narrowed to 1.51% in the first quarter of 2025 from 1.53% in the same period in 2024 (Exhibit 2).

#### Balance sheet trends

- Total loans of the banking sector increased by 0.6% in the first quarter of 2025 (Exhibit 5). Among the total, loans for use in Hong Kong and loans for use outside Hong Kong increased by 0.8% and 1.1% respectively, while trade finance decreased by 4.7%. Mainland-related lending increased by 1.1% during the same period (Exhibit 6).

#### Loan quality, liquidity conditions and capital adequacy

- The classified loan ratio of the banking sector increased slightly to 1.98% at the end of March 2025 from 1.96% at the end of December 2024. Meanwhile, the classified loan ratio for Mainland-related lending decreased to 2.27% at the end of March 2025 from 2.37% a quarter earlier (Exhibit 10). The delinquency ratios of credit card lending and residential mortgage loans remained at low levels of 0.37% and 0.13% at the end of March 2025 respectively (Exhibit 12).
- The banking sector continued to be liquid and well capitalised. The average Liquidity Coverage Ratio of category 1 institutions was 182.5% in the first quarter of 2025, well above the statutory minimum requirement of 100% (Exhibit 14). The total capital ratio of locally incorporated authorized institutions (AIs) stood at 24.2% at the end of March 2025 (Exhibit 16), 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 2025 vs Q1 2024	
	Percentage change	Contribution to the percentage change in pre-tax operating profit (ppt)
Income from foreign exchange and derivatives operations	+80.8%	+17.6
Income from fees and commissions	+33.7%	+9.8
Income from investments held for trading	-36.6%	-8.1
<b>Pre-tax operating profit</b>	<b>+15.8%</b>	

Exhibit 2

Net interest margin (year-to-date annualised) of retail banks narrowed in the first quarter of 2025

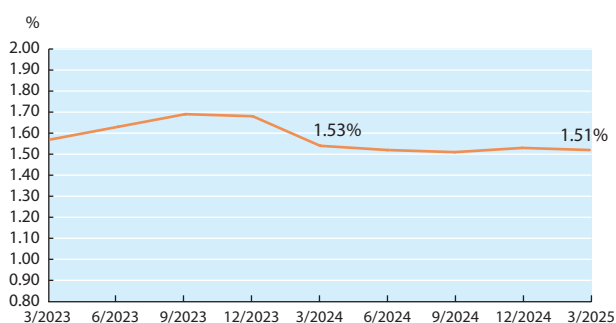


Exhibit 4

Cost-to-income ratio (year to date) of retail banks decreased in the first quarter of 2025

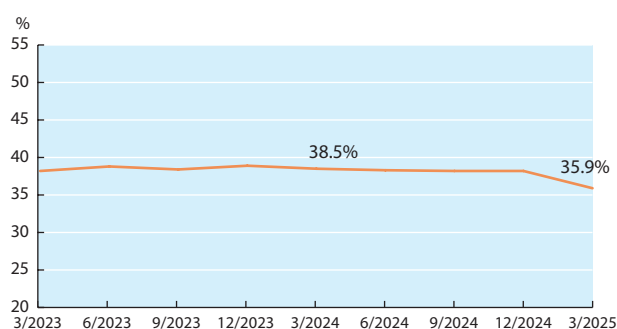
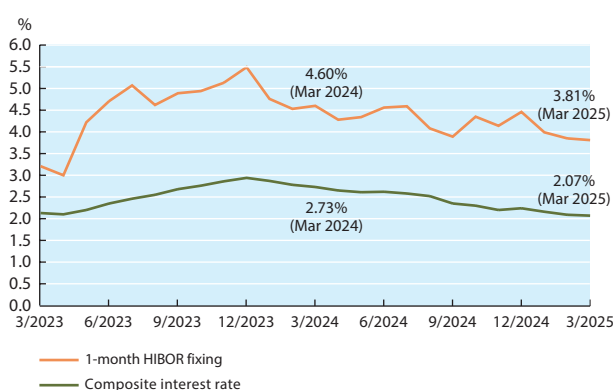


Exhibit 3

Both the Hong Kong dollar interbank interest rates and composite interest rate trended lower in the first quarter of 2025



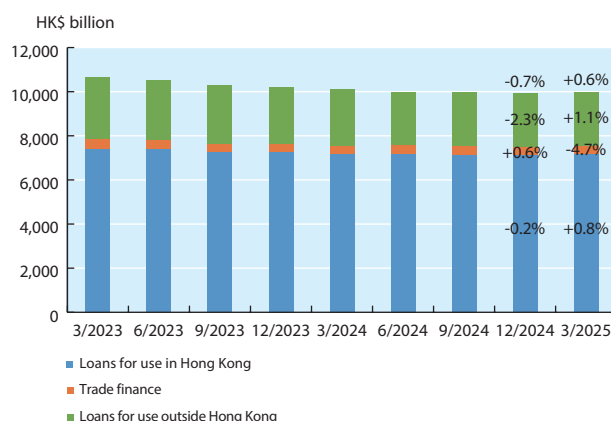
Notes:

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.

### Loans and deposits

Exhibit 5

Total loans increased by 0.6% in the first quarter of 2025



Notes:

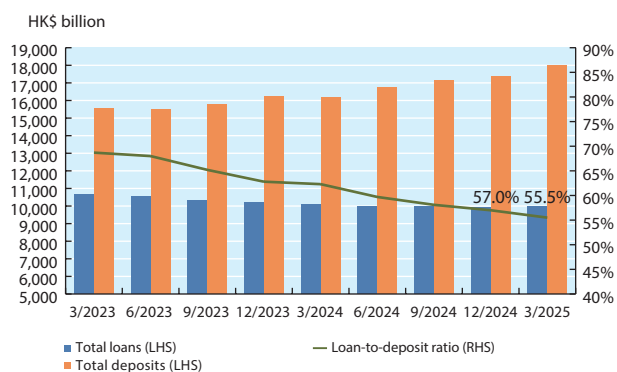
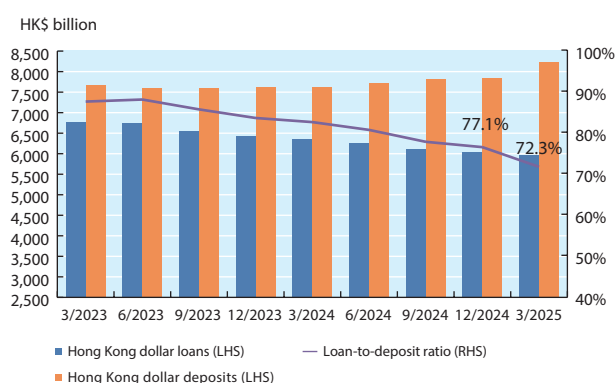
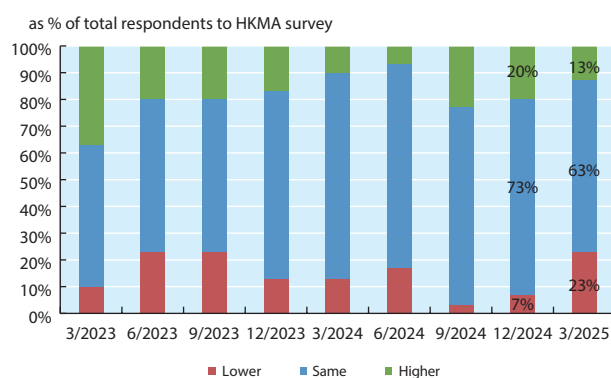
1. "Loans for use outside Hong Kong" include "others" (i.e. unallocated).
2. Percentage denotes quarter-on-quarter growth rate.

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 2025 were:

Key items	Percentage change	Contribution to the percentage change in loans for use in Hong Kong (ppt)
Financial concerns	+4.4%	+0.5
Information technology	+9.8%	+0.3
<b>Loans for use in Hong Kong</b>	<b>+0.8%</b>	

**Exhibit 6****Mainland-related lending**

	Dec 2024 HK\$ billion	Mar 2025 HK\$ billion
Mainland-related loans, excluding trade finance	3,650	3,694
Trade finance	223	221
<b>Total</b>	<b>3,873</b>	<b>3,915</b>

**Exhibit 7****Total loan-to-deposit ratio decreased in the first quarter of 2025****Exhibit 8****Hong Kong dollar loan-to-deposit ratio decreased in the first quarter of 2025****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 2024	Jun 2024	Sep 2024	Dec 2024	Mar 2025
	% of total loans				
<b>Special mention loans</b>	<b>2.05</b>	<b>1.93</b>	<b>2.01</b>	<b>2.15</b>	<b>2.25</b>
<b>Classified loans (gross)</b>	<b>1.79</b>	<b>1.89</b>	<b>1.99</b>	<b>1.96</b>	<b>1.98</b>
of which:					
Substandard	0.65	0.63	0.70	0.77	0.77
Doubtful	0.90	1.02	1.03	0.93	0.91
Loss	0.24	0.25	0.25	0.27	0.30
<b>Classified loans (net of specific provisions)</b>	<b>1.02</b>	<b>1.09</b>	<b>1.17</b>	<b>1.21</b>	<b>1.22</b>
<b>Overdue &gt; 3 months and rescheduled loans</b>	<b>1.48</b>	<b>1.52</b>	<b>1.64</b>	<b>1.55</b>	<b>1.63</b>
of which:					
Overdue > 3 months	1.27	1.28	1.41	1.30	1.42
Rescheduled loans	0.21	0.24	0.24	0.25	0.21
	% of Mainland-related lending				
<b>Classified loans (gross) of Mainland-related lending**</b>	<b>2.77</b>	<b>2.78</b>	<b>2.79</b>	<b>2.37</b>	<b>2.27</b>

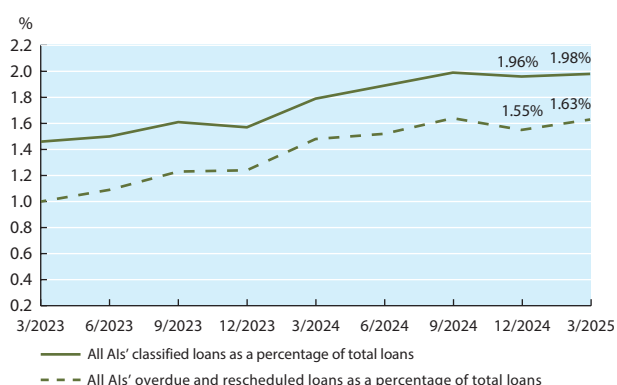
Note: Figures may not add up to total due to rounding.

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

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

**Exhibit 11**

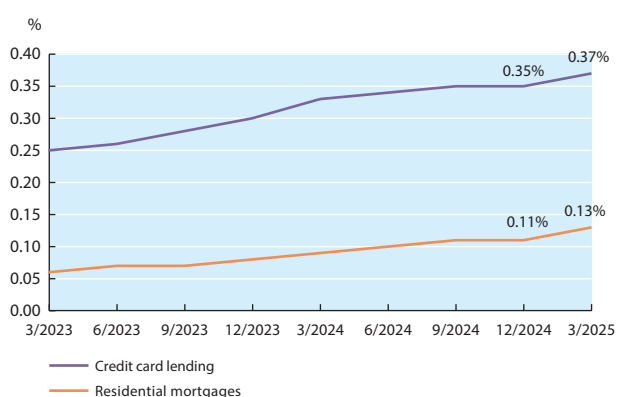
**The banking sector's overall asset quality deteriorated slightly in the first quarter of 2025 but remained manageable**



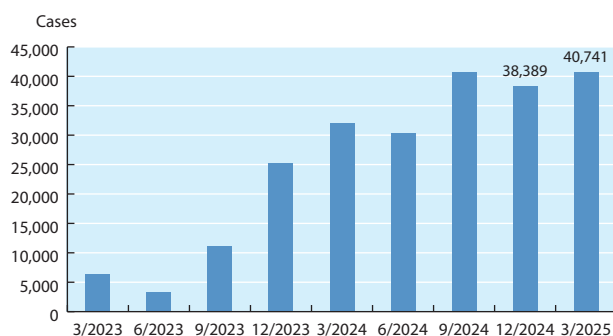
Note: Figures cover Hong Kong offices, branches and major subsidiaries outside Hong Kong.

**Exhibit 12**

**Delinquency ratios of credit card lending and residential mortgages edged up in the first quarter of 2025 but remained at low levels**

**Exhibit 13**

**The number of negative equity cases\* increased in the first quarter of 2025**

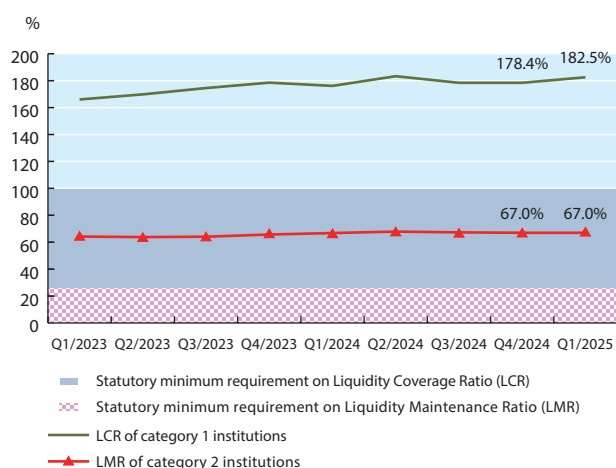


\* These cases were mainly related to residential mortgage loans under the mortgage insurance programme, which generally have a higher loan-to-value ratio.

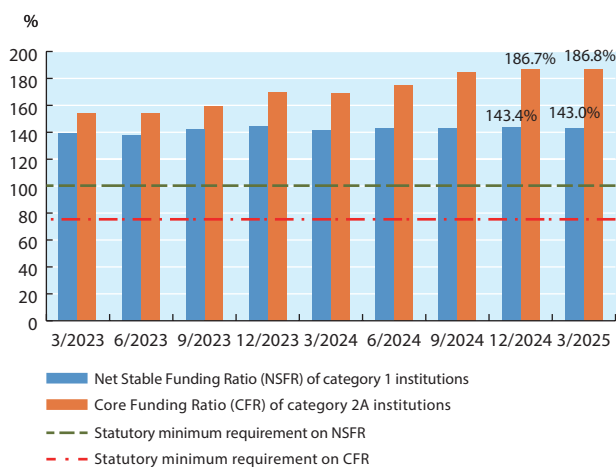
## Liquidity conditions

**Exhibit 14**

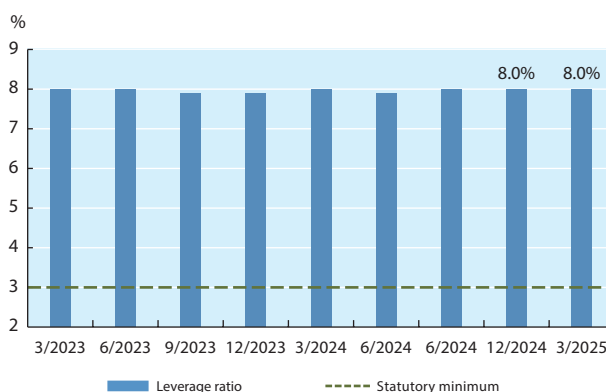
**Liquidity positions of AIs remained robust**



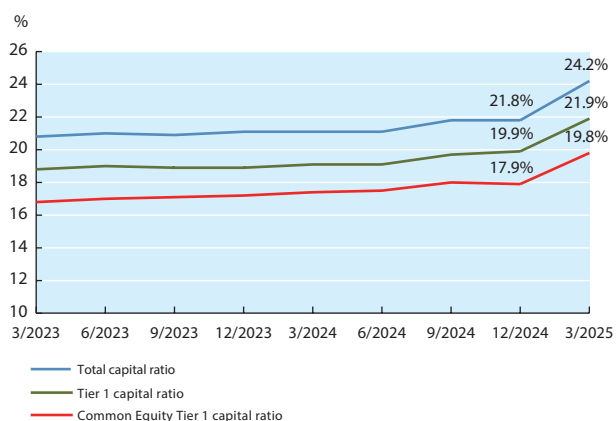
Note: For a category 1 institution, the statutory minimum requirement of the LCR is 100%. A category 2 institution must maintain an LMR of not less than 25% on average in each calendar month.

**Exhibit 15****Funding positions of AIs were largely stable**

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

**Exhibit 17****Leverage ratio stayed at a healthy level**

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

**Capital adequacy****Exhibit 16****Capital positions of locally incorporated AIs strengthened**

## APPENDIX

KEY PERFORMANCE INDICATORS OF BANKING SECTOR<sup>1</sup> (%)

	Mar 2024	Dec 2024	Mar 2025
<b>Interest rates</b>			
1-month HIBOR fixing <sup>2</sup> (quarterly average)	4.63	4.32	3.88
3-month HIBOR fixing (quarterly average)	4.73	4.34	3.94
BLR <sup>3</sup> and 1-month HIBOR fixing spread (quarterly average)	1.25	1.16	1.37
BLR and 3-month HIBOR fixing spread (quarterly average)	1.15	1.13	1.31
Composite interest rate <sup>4</sup>	2.73	2.24	2.07
<b>Balance sheet developments<sup>5</sup></b>	<b>All AIs</b>		
Total deposits	-0.2	+1.2	+3.5
Hong Kong dollar	+0.1	+0.4	+5.1
Foreign currency	-0.4	+1.9	+2.2
Total loans	-1.0	-0.7	+0.6
Domestic lending <sup>6</sup>	-1.2	-0.1	+0.5
Loans for use outside Hong Kong <sup>7</sup>	-0.4	-2.3	+1.1
Negotiable instruments			
Negotiable certificates of deposit (NCDs) issued	-0.9	+2.4	-0.1
Negotiable debt instruments held (excluding NCDs)	+2.7	+1.4	+4.0
<b>Asset quality</b>			
As a percentage of total loans <sup>8</sup>			
Pass loans	96.16	95.89	95.77
Special mention loans	2.05	2.15	2.25
Classified loans <sup>9</sup> (gross)	1.79	1.96	1.98
Classified loans (net) <sup>10</sup>	1.02	1.21	1.22
Overdue > 3 months and rescheduled loans	1.48	1.55	1.63
Classified loan ratio (gross) of Mainland related lending <sup>11</sup>	2.77	2.37	2.27
<b>Liquidity ratios (consolidated)</b>			
Liquidity Coverage Ratio — applicable to category 1 institutions (quarterly average)	176.1	178.4	182.5
Liquidity Maintenance Ratio — applicable to category 2 institutions (quarterly average)	66.8	67.0	67.0
Net Stable Funding Ratio — applicable to category 1 institutions	141.5	143.4	143.0
Core Funding Ratio — applicable to category 2A institutions	169.0	186.7	186.8
<b>Profitability</b>	<b>Retail banks</b>		
Loan impairment charges as a percentage of average total assets (year-to-date annualised)	0.11	0.22	0.15
Net interest margin (year-to-date annualised)	1.53	1.52	1.51
Cost-to-income ratio (year to date)	38.5	38.2	35.9
<b>Asset quality</b>	<b>Surveyed institutions</b>		
Delinquency ratio of residential mortgage loans	0.09	0.11	0.13
Credit card lending			
Delinquency ratio	0.33	0.35	0.37
Charge-off ratio — quarterly annualised	2.20	2.30	2.43
— year-to-date annualised	2.20	2.18	2.43
<b>Capital adequacy (consolidated)</b>	<b>All locally incorporated AIs</b>		
Common Equity Tier 1 capital ratio	17.4	17.9	19.8
Tier 1 capital ratio	19.1	19.9	21.9
Total capital ratio	21.1	21.8	24.2
Leverage ratio	8.0	8.0	8.0

## Notes:

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