REGULAR ARTICLE

Developments in the Banking Sector

by Banking Supervision Department

HIGHLIGHTS OF KEY TRENDS

Banking sector performance

Overview

- The Hong Kong banking sector stayed resilient with strong capital and liquidity positions. Despite a slight increase in the classified loan ratio in the third quarter of 2025, the banking sector's asset quality remained manageable.

Profitability

- The aggregate pre-tax operating profit of retail banks increased by 11.9% year on year in the first three quarters of 2025 (Exhibit 1). This was mainly attributable to increases in income from fees and commissions and net interest income. Retail banks' net interest margin narrowed to 1.47% in the first three quarters of 2025 from 1.50% in the same period last year (Exhibit 2).

Balance sheet trends

- Total loans of the banking sector decreased by 0.9% in the third quarter of 2025 (Exhibit 5). Among the total, loans for use in Hong Kong, loans for use outside Hong Kong and trade finance decreased by 0.4%, 2.3% and 0.7% respectively. Mainland-related lending decreased by 1.5% during the same period (Exhibit 6).

- Total deposits increased by 2.4% in the third quarter of 2025. Among the total, Hong Kong dollar deposits decreased by 2.7% while US dollar deposits increased by 6.4%. The overall loan-to-deposit ratio decreased to 52.6% at the end of September 2025 from 54.3% at the end of June 2025 (Exhibit 7).

Loan quality, liquidity conditions and capital adequacy

- The classified loan ratio of the banking sector was 1.98% at the end of September 2025, as compared with 1.97% at the end of June 2025. Meanwhile, the classified loan ratio for Mainland-related lending decreased to 1.99% from 2.16% 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 September 2025 (Exhibit 12).

- The banking sector continued to be liquid and well capitalised. The average Liquidity Coverage Ratio of category 1 institutions was 171.2% in the third 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 24.4% at the end of September 2025 (Exhibit 16), well above the international minimum requirement of 8%.

Results of surveys on debt securities and off-balance sheet exposures to derivatives and securitisations

- The total market value of debt securities held by the surveyed AIs[1] increased by 14.0% to HK$9,358 billion at the end of September 2025 from HK$8,205 billion a year before (Exhibit 18). The credit quality of these securities remained high, as over 98% of the debt securities holdings were investment grade (Exhibit 19). The issuers of these securities were mostly governments and banks (Exhibit 20).
- The total gross notional amount of outstanding derivatives contracts held by AIs increased by 16.4% to HK$184 trillion at the end of June 2025 from HK$158 trillion a year before (Exhibit 21). Over-the-counter (OTC) swap and forward contracts continued to represent the bulk of the contracts held, accounting for over 90% of the total notional amount of all outstanding derivatives contracts at the end of June 2025 (Exhibit 22). In terms of underlying assets, over 98% of these contracts were interest rate and foreign exchange contracts (Exhibit 23). The off-balance sheet securitisation exposures of AIs remained insignificant, with the aggregate amount of notional exposures totalling HK$21 billion at the end of June 2025.

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-Q3 2025 vs Q1-Q3 2024	
	Percentage change	Contribution to the percentage change in pre-tax operating profit (ppt)
Income from fees and commissions	+28.3%	+8.4
Net interest income	+3.7%	+3.8
Pre-tax operating profit	**+11.9%**	

[1] This survey covers all licensed banks and restricted licence banks.

Exhibit 2

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

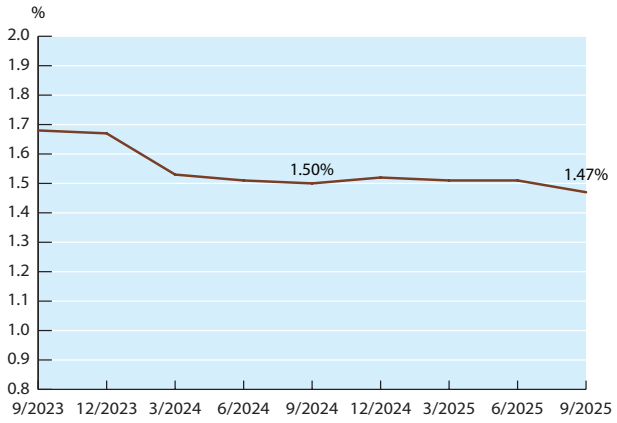
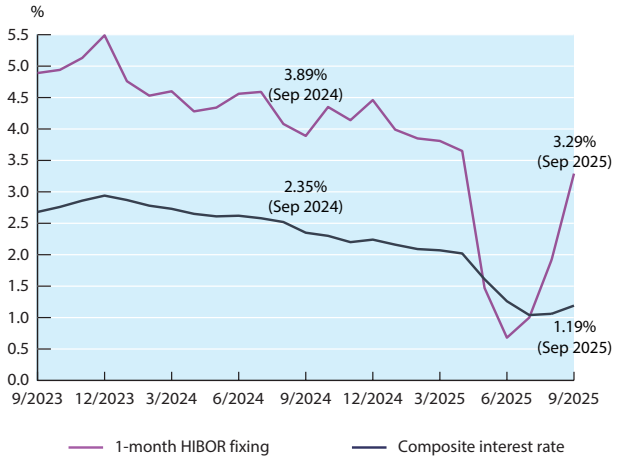


Exhibit 3

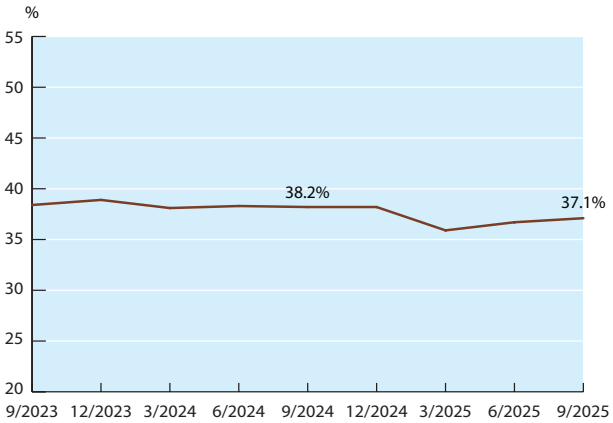
Hong Kong dollar interbank interest rates rebounded while the composite interest rate trended lower in the third quarter of 2025



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.

Exhibit 4

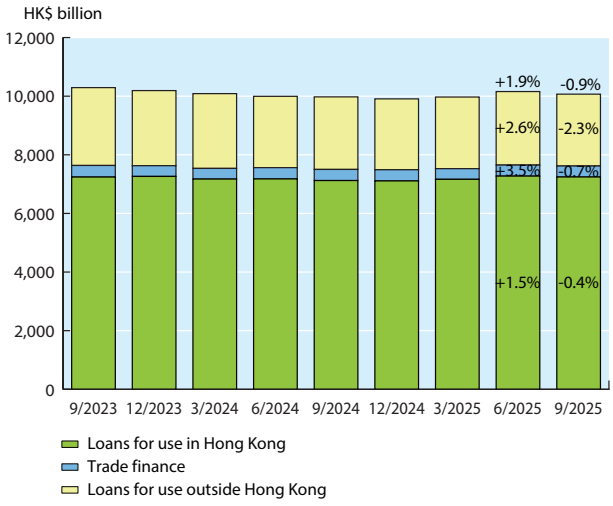
Cost-to-income ratio (year to date) of retail banks was broadly stable in the third quarter of 2025



Loans and deposits

Exhibit 5

Total loans decreased by 0.9% in the third 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 third quarter of 2025 were:

Key items	Percentage change	Contribution to the percentage change in loans for use in Hong Kong (ppt)
Property lending (including residential mortgage loans and loans for property development and investment)	-1.3%	-0.6
Financial concerns	+3.0%	+0.4
Loans for use in Hong Kong	**-0.4%**	

Exhibit 6

Mainland-related lending

	Jun 2025	Sep 2025
	HK$ billion	HK$ billion
Mainland-related loans excluding trade finance	3,802	3,752
Trade finance	222	214
Total	**4,024**	**3,966**

Exhibit 7

Total loan-to-deposit ratio decreased in the third quarter of 2025

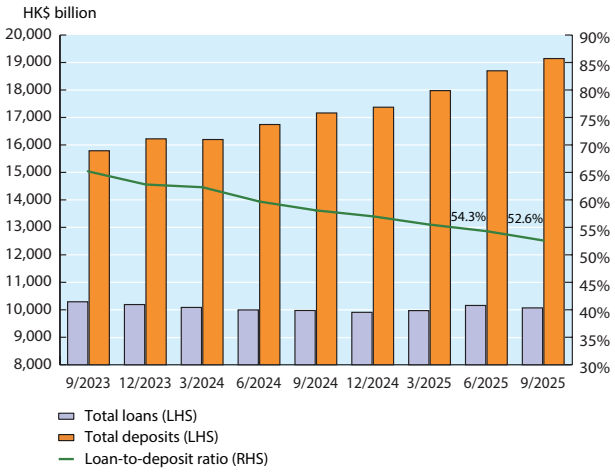


Exhibit 8

Hong Kong dollar loan-to-deposit ratio increased in the third quarter of 2025

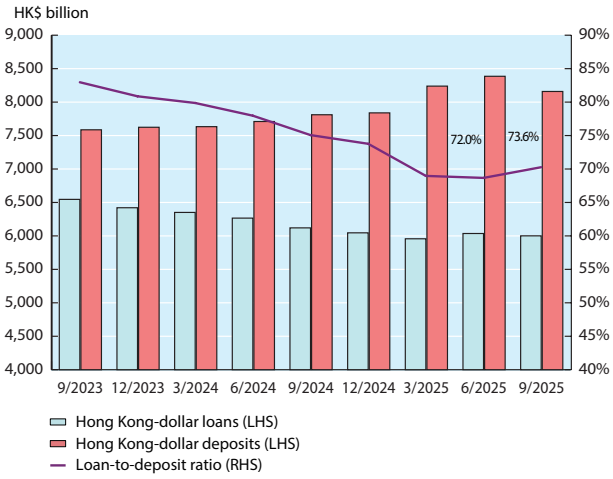
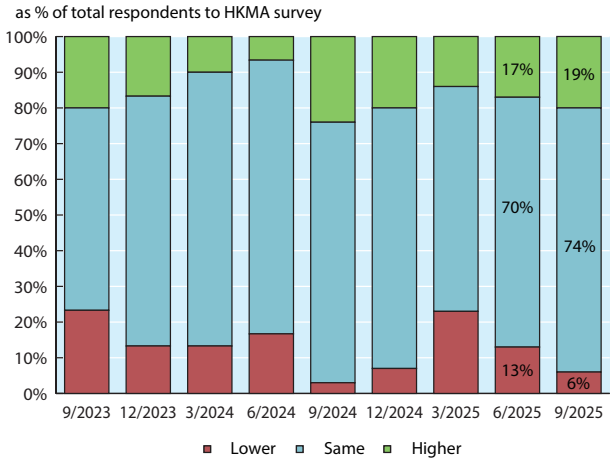


Exhibit 9

The percentage of respondents to the Hong Kong Monetary Authority Opinion Survey on Credit Conditions Outlook expecting lower loan demand in the next three months fell



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*

	Sep 2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025
	% of total loans				
Special mention loans	**2.01**	**2.15**	**2.25**	**2.16**	**2.17**
Classified loans (gross)	**1.99**	**1.96**	**1.98**	**1.97**	**1.98**
of which:					
Substandard	0.70	0.77	0.77	0.77	0.79
Doubtful	1.03	0.93	0.91	0.93	0.92
Loss	0.25	0.27	0.30	0.27	0.28
Classified loans (net of specific provisions)	**1.17**	**1.21**	**1.22**	**1.22**	**1.25**
Overdue > 3 months and rescheduled loans	**1.64**	**1.55**	**1.63**	**1.58**	**1.60**
of which:					
Overdue > 3 months	1.41	1.30	1.42	1.37	1.34
Rescheduled loans	0.24	0.25	0.21	0.20	0.26
	% of Mainland-related lending				
Classified loans (gross) of Mainland-related lending**	**2.79**	**2.37**	**2.27**	**2.16**	**1.99**

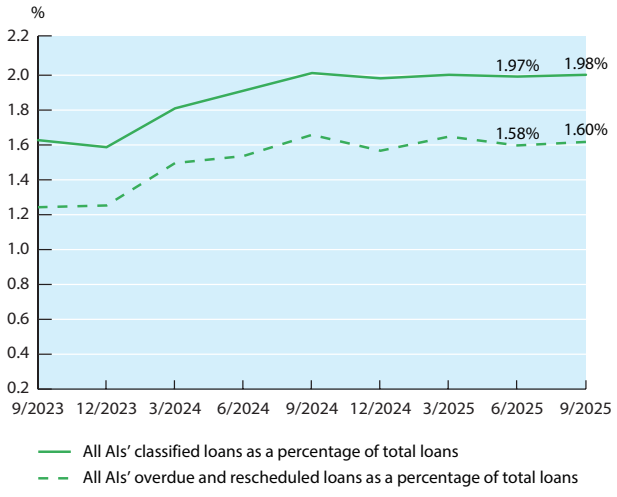
Note: Figures may not add up to the total due to rounding.

* 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 deteriorated slightly in the third 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 were stable in the third quarter of 2025

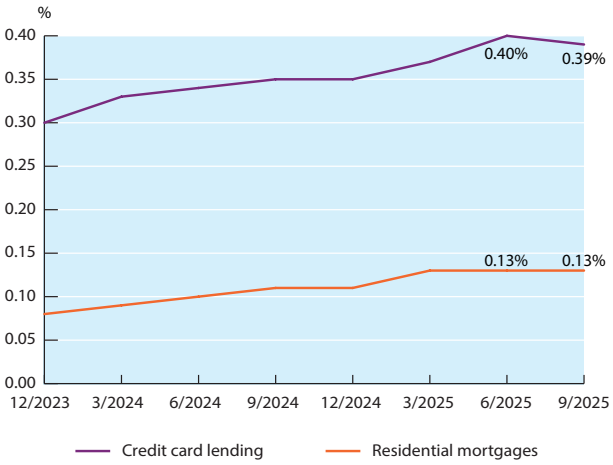
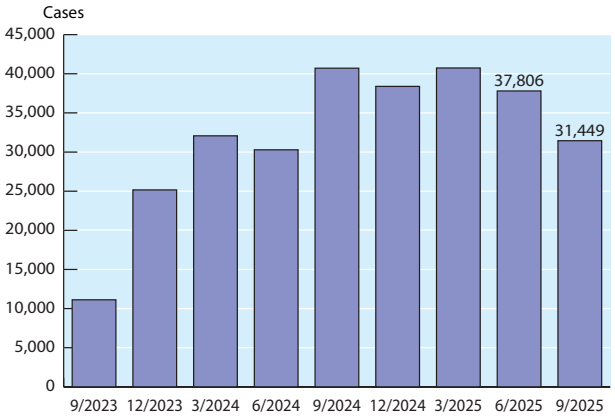


Exhibit 13

The number of negative equity cases* decreased in the third quarter of 2025

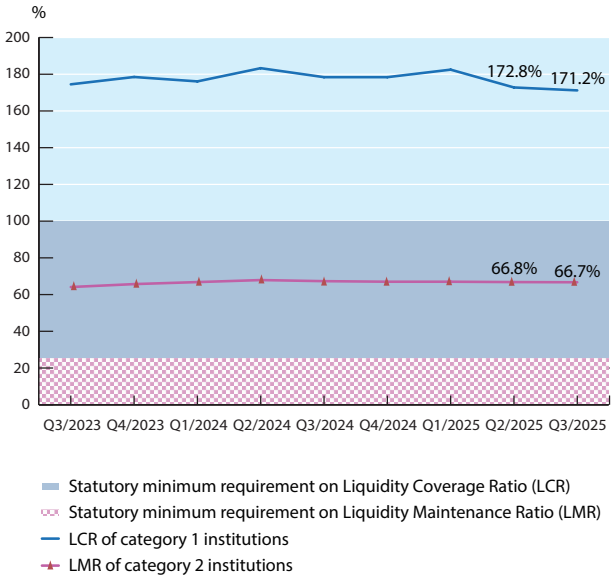


* These cases were mainly related to residential mortgage loans under the mortgage insurance programme, which generally have a higher loan-to-value ratio.

Liquidity conditions

Exhibit 14

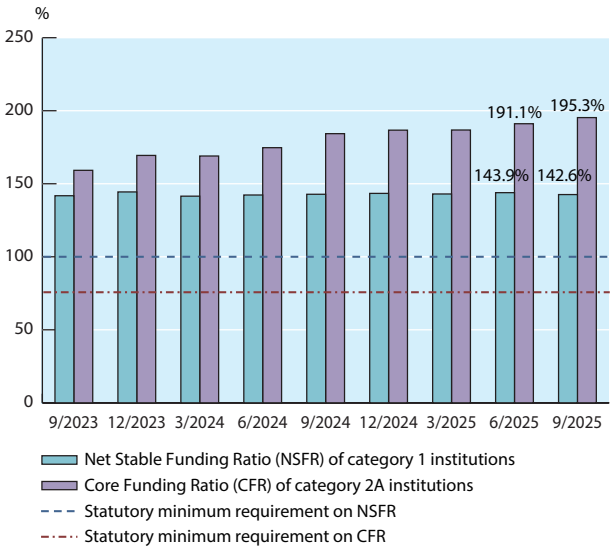
Liquidity positions of AIs remained robust



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.

Capital adequacy

Exhibit 16

Capital positions of locally incorporated AIs remained strong

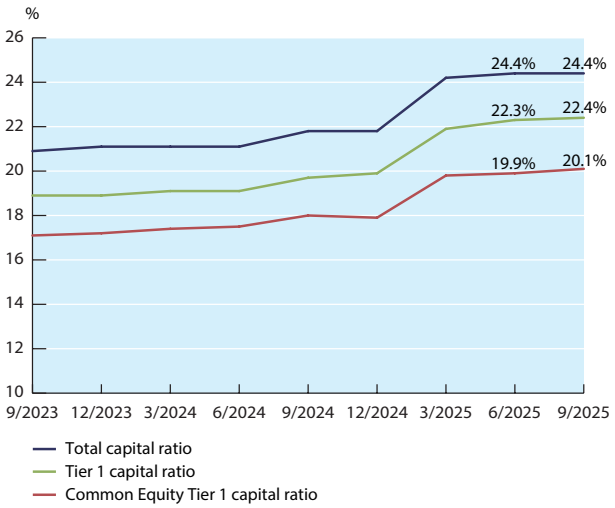
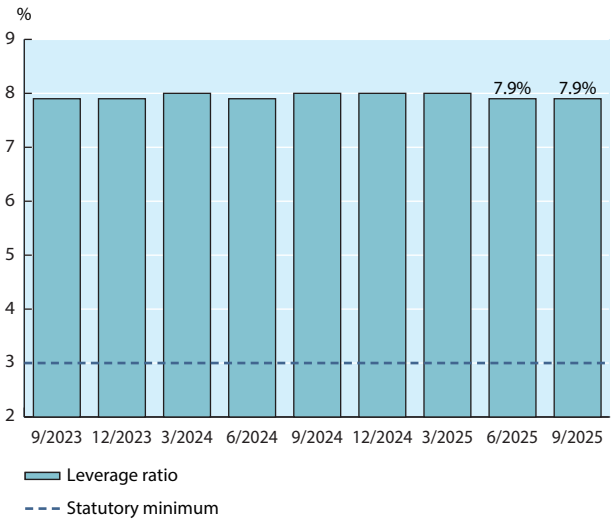


Exhibit 17

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%.

Results of surveys on debt securities and off-balance sheet exposures to derivatives and securitisations

Debt securities held[2]

Exhibit 18

Surveyed AIs reported an increase in their holdings of debt securities compared with a year earlier

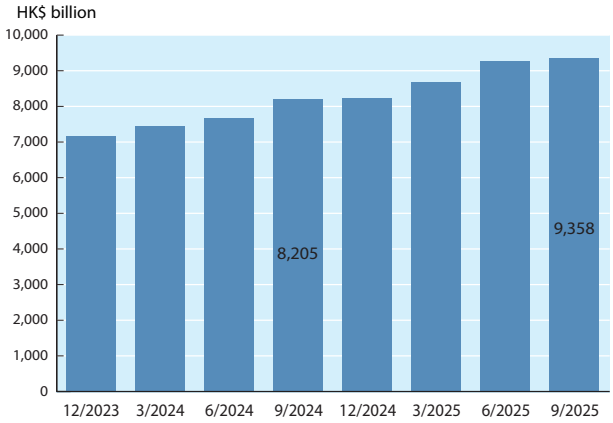
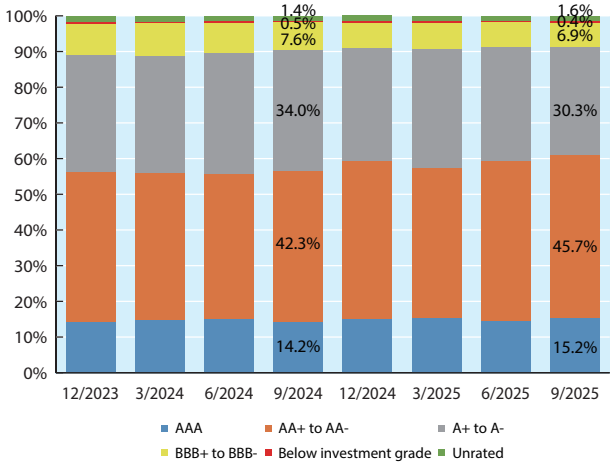


Exhibit 19

Debt securities held by surveyed AIs were predominantly investment grade securities



[2] This section presents the results of the Survey on Debt Securities Held by all licensed banks and restricted licence banks. The results cover the banking book and trading book positions of surveyed AIs' Hong Kong offices and their branches outside Hong Kong. Figures shown may not add up to the total due to rounding.

Exhibit 20

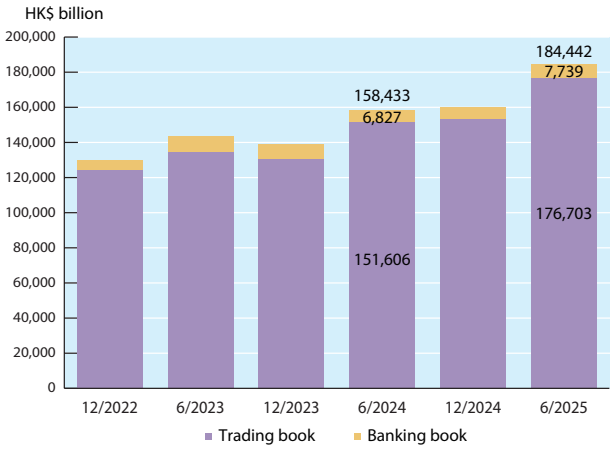
Most of the debt securities were issued by governments and banks

(% of total debt securities holdings)	All surveyed AIs							
Types of instrument and issuer	**Dec 2023**	**Mar 2024**	**Jun 2024**	**Sep 2024**	**Dec 2024**	**Mar 2025**	**Jun 2025**	**Sep 2025**
Part 1: Debt securities other than securitisation products[3]								
Governments and international organisations, of which:	53.2%	52.5%	51.0%	52.4%	53.4%	51.3%	52.6%	52.4%
Exchange Fund bills and notes	19.3%	18.4%	17.7%	17.8%	17.9%	15.9%	15.9%	15.5%
US Treasury bills, notes and bonds	14.1%	13.7%	13.3%	14.2%	16.1%	14.7%	15.8%	16.3%
Public sector entities	8.4%	8.6%	8.7%	8.5%	8.5%	9.1%	9.4%	10.1%
Banks	22.4%	22.8%	24.2%	23.7%	22.7%	24.0%	23.1%	22.2%
Corporates	9.8%	9.6%	9.2%	8.9%	8.7%	8.7%	7.9%	7.8%
Others	4.1%	3.9%	4.0%	3.7%	3.7%	3.8%	3.8%	4.0%
Part 2: Securitisation products								
Total securitisation products	2.1%	2.4%	2.8%	2.9%	2.9%	3.1%	3.2%	3.6%

Exposures to Derivatives[4]

Exhibit 21

Total notional amount of all outstanding derivatives contracts increased



[3] Securitisation products include asset-backed securities, mortgage-backed securities, collateralised debt obligations, notes issued by structured investment vehicles, asset-backed commercial papers, and other similar structured credit products.

[4] This section presents the results of the Survey on Off-balance Sheet Exposures in Derivatives and Securitisation Transactions. The results cover the banking book and trading book positions of all AIs' Hong Kong offices and their branches outside Hong Kong. Figures may not add up to the total due to rounding.

Exhibit 22

OTC swap and forward contracts continued to account for over 90% of total derivatives contracts held by AIs

(% of total)	All AIs					
Derivatives product	**Dec 2022**	**Jun 2023**	**Dec 2023**	**Jun 2024**	**Dec 2024**	**Jun 2025**
Exchange-traded derivatives	**0.8%**	**0.7%**	**0.4%**	**0.6%**	**0.6%**	**0.6%**
OTC derivatives	**99.2%**	**99.3%**	**99.6%**	**99.4%**	**99.4%**	**99.4%**
of which:						
Forwards	22.8%	23.2%	24.6%	24.1%	24.9%	26.1%
Swaps	70.0%	70.6%	69.6%	70.3%	69.7%	68.2%
Options	4.0%	4.1%	4.1%	3.8%	3.7%	4.2%
Credit derivatives	0.5%	0.4%	0.5%	0.5%	0.5%	0.4%
Others	2.0%	1.0%	0.7%	0.6%	0.5%	0.4%

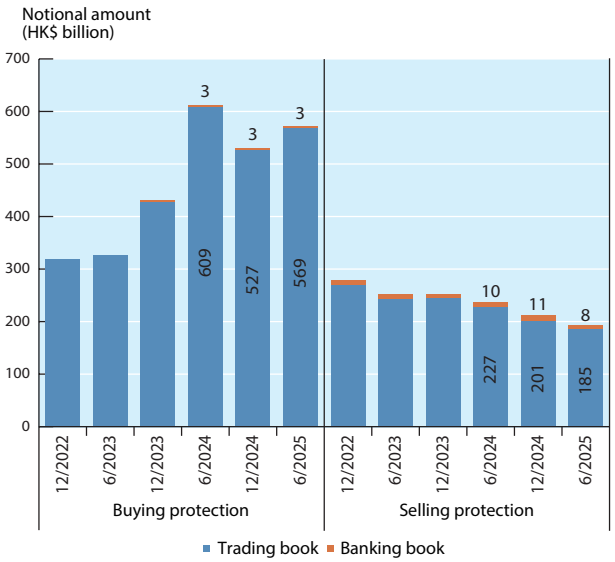
Exhibit 23

Derivatives contracts held were predominantly interest rate and foreign exchange contracts

(% of total)	All AIs					
Underlying risk	**Dec 2022**	**Jun 2023**	**Dec 2023**	**Jun 2024**	**Dec 2024**	**Jun 2025**
Interest rate risk	50.1%	49.8%	48.0%	47.5%	47.8%	44.0%
Foreign exchange risk	48.7%	49.0%	50.7%	51.0%	50.8%	54.7%
Equity risk	0.7%	0.7%	0.8%	0.8%	0.9%	0.8%
Commodity risk	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Credit risk	0.5%	0.4%	0.5%	0.5%	0.5%	0.4%
Other risks	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Exhibit 24

The notional amount of credit derivatives contracts remained broadly stable



APPENDIX

KEY PERFORMANCE INDICATORS OF BANKING SECTOR[1] (%)

	Sep 2024	Jun 2025	Sep 2025
Interest rates			
1-month HIBOR fixing[2] (quarterly average)	4.19	1.93	2.07
3-month HIBOR fixing (quarterly average)	4.36	2.58	2.47
BLR[3] and 1-month HIBOR fixing spread (quarterly average)	1.66	3.32	3.16
BLR and 3-month HIBOR fixing spread (quarterly average)	1.49	2.67	2.77
Composite interest rate[4]	2.35	1.26	1.19
Balance sheet developments[5]	**All AIs**		
Total deposits	+2.5	+4.0	+2.4
Hong Kong dollar	+1.3	+1.8	-2.7
Foreign currency	+3.5	+5.9	+6.5
Total loans	-0.2	+1.9	-0.9
Domestic lending[6]	-0.8	+1.6	-0.4
Loans for use outside Hong Kong[7]	+1.7	+2.6	-2.3
Negotiable instruments			
Negotiable certificates of deposit (NCDs) issued	+4.8	+5.2	-6.3
Negotiable debt instruments held (excluding NCDs)	+6.7	+8.3	+1.1
Asset quality			
As a percentage of total loans[8]			
Pass loans	96.00	95.87	95.85
Special mention loans	2.01	2.16	2.17
Classified loans[9] (gross)	1.99	1.97	1.98
Classified loans (net)[10]	1.17	1.22	1.25
Overdue > 3 months and rescheduled loans	1.64	1.58	1.60
Classified loan ratio (gross) of Mainland related lending[11]	2.79	2.16	1.99
Liquidity ratios (consolidated)			
Liquidity Coverage Ratio — applicable to category 1 institutions (quarterly average)	178.4	172.8	171.2
Liquidity Maintenance Ratio — applicable to category 2 institutions (quarterly average)	67.3	66.8	66.7
Net Stable Funding Ratio — applicable to category 1 institutions	142.8	143.9	142.6
Core Funding Ratio — applicable to category 2A institutions	184.3	191.1	195.3
Profitability	**Retail banks**		
Loan impairment charges as a percentage of average total assets (year-to-date annualised)	0.19	0.18	0.18
Net interest margin (year-to-date annualised)	1.50	1.47	1.47
Cost-to-income ratio (year to date)	38.2	36.7	37.1
Asset quality	**Surveyed institutions**		
Delinquency ratio of residential mortgage loans	0.11	0.13	0.13
Credit card lending			
Delinquency ratio	0.35	0.40	0.39
Charge-off ratio — quarterly annualised	2.33	2.57	2.57
— year-to-date annualised	2.25	2.48	2.46
Capital adequacy (consolidated)	**All locally incorporated AIs**		
Common Equity Tier 1 capital ratio	18.0	19.9	20.1
Tier 1 capital ratio	19.7	22.3	22.4
Total capital ratio	21.8	24.4	24.4
Leverage ratio	8.0	7.9	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 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.