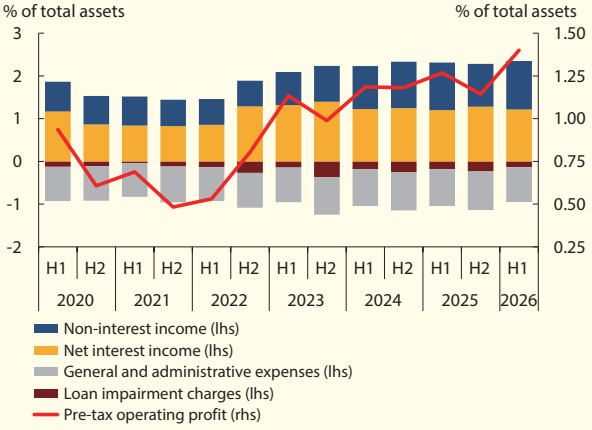
5. Banking sector performance

5.1 Profitability

The aggregate pre-tax operating profit of retail banks[48] increased by 20.4% in the first half of 2026, compared with the same period in 2025. This growth was primarily driven by increases in net interest income, fees and commission income, and income from investment held for trading, partially offset by a decrease in income from foreign exchange and derivatives operations. Consequently, banks' return on assets (ROA) improved to 1.40% in the first half of 2026, up from 1.27% in the same period of 2025 (Chart 5.1).

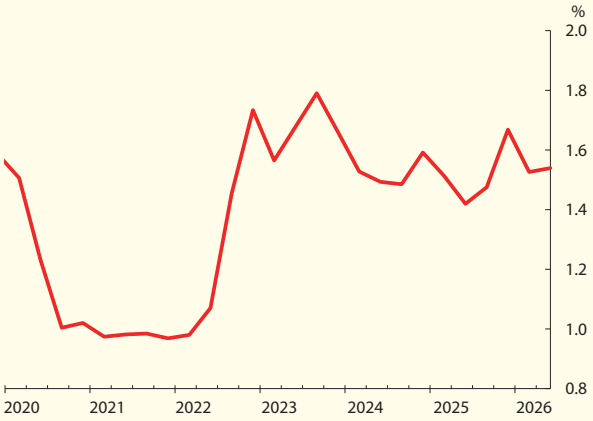
Chart 5.1
Profitability of retail banks



Note: Annualised semi-annual figures.
Source: HKMA.

Meanwhile, the net interest margin (NIM) of retail banks widened to 1.53% in the first half of 2026, compared with 1.47% in the same period of 2025 (Chart 5.2), partly reflecting the increase in Hong Kong dollar (HKD) interest rates during the first half of 2026.

Chart 5.2
Net interest margin of retail banks



Note: Annualised quarterly figures.
Source: HKMA.

The HKD interbank interest rates eased in the first quarter of 2026 as year-end funding demand subsided, before rebounding notably. For instance, the three-month Hong Kong Interbank Offered Rate (HIBOR) decreased by 57 basis points from the end of December 2025 to 2.36% at the end of March 2026, before rising to 2.97% at the end of June 2026. Overall, this represented a net increase of four basis points during the first half of 2026 (blue line in Chart 5.3).

On the retail front, the HKD retail deposit funding costs remained broadly stable during the first half of 2026, as banks kept their HKD savings deposit rates and best lending rates (BLRs) unchanged. Reflecting the developments in both wholesale and retail funding costs, the composite interest rate (a measure of the average cost of HKD funds for retail banks) remained largely unchanged at 1.37% at the end of June 2026 (green line in Chart 5.3).

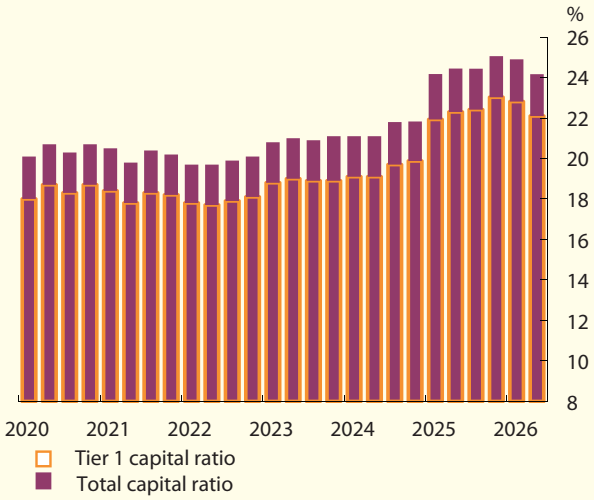
[48] Throughout this chapter, figures for the banking sector relate to Hong Kong offices only, unless otherwise stated.

Chart 5.3
HKD Interest rates



Note: End-of-period figures.
Sources: HKMA and staff estimates.

Chart 5.4
Capital positions of locally incorporated AIs



Note: Consolidated basis.
Source: HKMA.

5.2 *Capital and liquidity positions*

Capitalisation

The Hong Kong banking sector remained well-capitalised. The consolidated total capital ratio of locally incorporated authorized institutions (AIs) stood at a robust 24.2% at the end of June 2026 (Chart 5.4), well above the international minimum requirement of 8%.[49] In addition, the non-risk-based Leverage Ratio of locally incorporated AIs remained healthy at 7.5% at the end of June 2026, exceeding the statutory minimum of 3%.

Liquidity and funding

The liquidity and funding positions of the banking sector, as measured by Basel III liquidity standards, remained sound during the first half of 2026. The average Liquidity Coverage Ratio (LCR) of category 1 institutions and the average Liquidity Maintenance Ratio (LMR) of category 2 institutions were 150.5% and 67.0%, respectively, in the second quarter of 2026 (upper two rows in Table 5A), remaining well above their corresponding statutory minimum requirements of 100% and 25%.[50]

[49] The Tier 1 capital ratio and the Common Equity Tier 1 (CET1) capital ratio were 22.1% and 19.6% respectively.

[50] Under the Banking (Liquidity) Rules, AIs designated as "category 1 institutions" are required to comply with the requirements related to the LCR and Net Stable Funding Ratio. In general, "category 1 institutions" are AIs that either have significant international exposures or are considered systemically important to the local banking sector in light of their size or complexity of business operations. All other AIs are regarded as "category 2 institutions" and are required to comply with the LMR requirement. Among them, AIs designated as "category 2A institutions" must also comply with the local Core Funding Ratio (CFR) requirement. The designation of "category 2A institutions" is based on the institution's business size and liquidity risk profile.

Table 5.A
Liquidity and funding requirement ratios

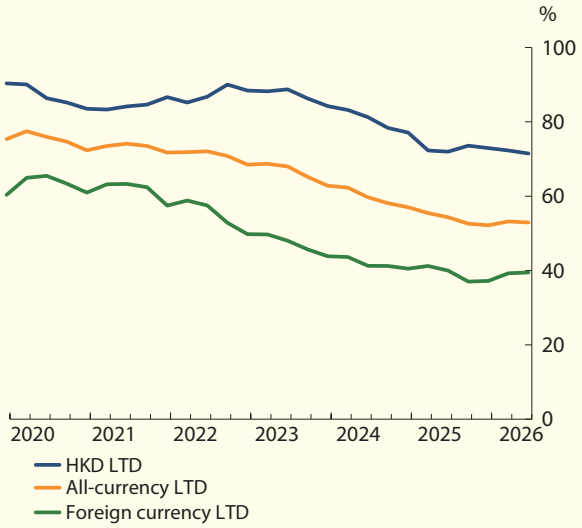
Ratios (%)	Dec-2025	Mar-2026	Jun-2026
Liquidity Coverage Ratio — applicable to category 1 institutions	165.6	160.2	150.5
Liquidity Maintenance Ratio — applicable to category 2 institutions	68.3	66.6	67.0
Net Stable Funding Ratio — applicable to category 1 institutions	141.0	140.9	137.9
Core Funding Ratio — applicable to category 2A institutions	189.0	182.2	184.6

Note: Consolidated basis.
Source: HKMA.

The average Net Stable Funding Ratio of category 1 institutions was 137.9% at the end of June 2026, also well above the statutory minimum of 100%. The average Core Funding Ratio of category 2A institutions stayed at an elevated level of 184.6% (bottom two rows in Table 5A), substantially above the statutory minimum of 75%.

The average all-currency loan-to-deposit (LTD) ratio of all AIs edged up to 52.9% at the end of June 2026, compared to 52.2% at the end of December 2025 (Chart 5.5). The increase was attributable to a rise in foreign currency LTD ratio, partially offset by a slight decrease in the HKD LTD ratio. Specifically, the foreign currency LTD ratio rose to 39.5% at the end of June 2026 from 37.2% at the end of December 2025, while the HKD LTD ratio decreased to 71.5% from 72.9% over the same period.

Chart 5.5
Average loan-to-deposit ratios of all AIs



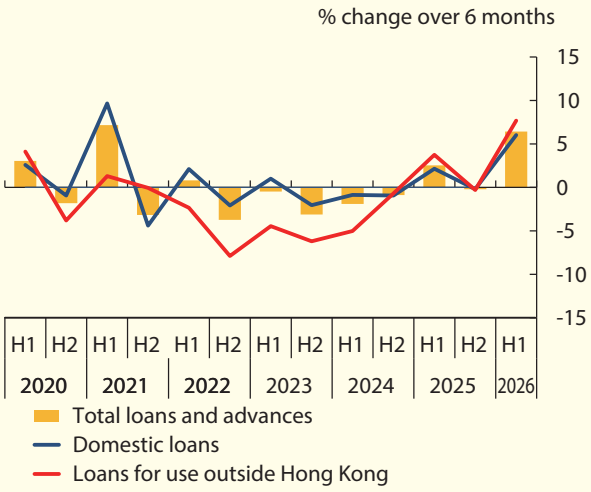
Note: End-of-quarter figures.
Source: HKMA.

5.3 *Credit risk*

Overview

On a half-yearly basis, total loans and advances of all AIs grew by 6.4% in the first half of 2026, reversing a 0.2% contraction in the second half of 2025 (Chart 5.6). This growth was driven by increases in both domestic loans (comprising loans for use in Hong Kong and trade financing), which rose by 6.0%, and loans for use outside Hong Kong, which increased by 7.7% in the first half of 2026.

Chart 5.6
Loan growth



Note: Domestic loans comprise loans for use in Hong Kong and trade financing.
Source: HKMA.

Nonetheless, banks' assessment of near-term credit demand remained cautious. According to the HKMA's Opinion Survey on Credit Condition Outlook, the share of surveyed AIs expecting loan demand to be the same (Table 5.B) increased to 83% in the first half of 2026, up from 71% at the end of 2025. Meanwhile, the share of surveyed AIs expecting higher loan demand dropped from 26% to 10%, likely reflecting heightened uncertainty stemming from the Middle East military conflicts.

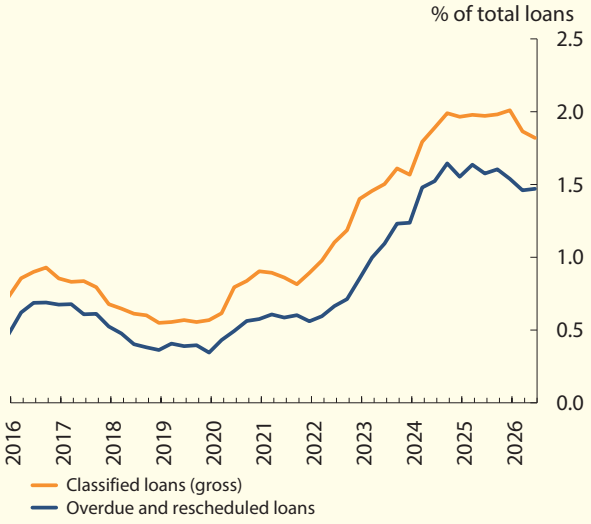
Table 5.B
Expectations of loan demand in the next three months

% of total respondents	Dec-25	Mar-26	Jun-26
Considerably higher	0	0	0
Somewhat higher	26	16	10
Same	71	77	83
Somewhat lower	3	7	7
Considerably lower	0	0	0
Total	100	100	100

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

The asset quality of the banking sector remained manageable, with signs of improvement observed in the first half of 2026. The gross classified loan ratio (CLR) of all AIs declined to 1.82% in the second quarter of 2026 from 2.01% at the end of 2025. Meanwhile, the ratio of overdue and rescheduled loans of all AIs decreased mildly from 1.54% at the end of 2025 to 1.47% in the second quarter of 2026 (Chart 5.7).

Chart 5.7
Asset quality of all AIs



Note: Classified loans are those loans graded as "sub-standard", "doubtful" or "loss".
Source: HKMA.

Household exposure[51]

Household debt grew by 5.2% in the first half of 2026, faster than the 2.7% increase in the second half of 2025 (Table 5.C). A breakdown of the data shows that the growth of residential mortgage loans increased to 2.5% in the first half of 2026 amid increased residential property transactions. Concurrently, the growth of personal loans accelerated to 11.8%.

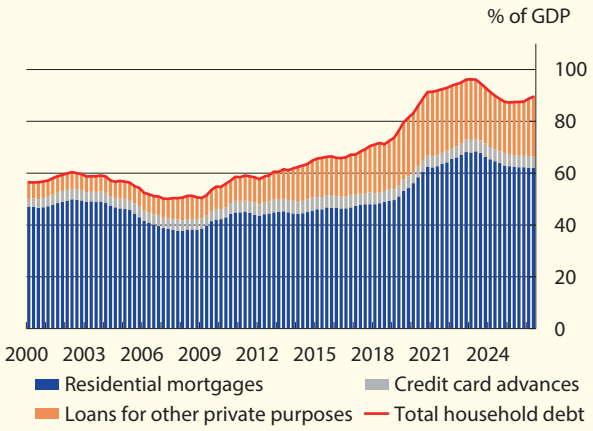
Table 5.C
Half-yearly growth of loans to households by all AIs

	2023		2024		2025		2026
(%)	H1	H2	H1	H2	H1	H2	H1
Residential mortgages	2.6	0.8	0.8	0.6	1.2	2.1	2.5
Personal loans	1.4	–0.3	–1.7	0.5	3.1	4.3	11.8
of which:							
Credit card advances	0.2	10.5	-5.3	6.7	-7.0	9.8	–5.7
Loans for other private purposes	1.6	–2.6	–0.9	–1.0	5.6	3.1	15.8
Total loans to households	2.2	0.5	0.0	0.6	1.8	2.7	5.2

Source: HKMA.

Consequently, the household debt-to-gross domestic product (GDP) ratio rose to 89.5% in the first half of 2026 (Chart 5.8) from 87.6% in the second half of 2025, as household debt expanded at a faster pace than Hong Kong's nominal GDP.

Chart 5.8
Household debt-to-GDP ratio and its components



Notes:
1. Only borrowings from AIs are covered.
2. GDP refers to the annualised GDP, which is the sum of the quarterly GDP in the trailing four quarters.
3. Since December 2018, the figure for household debt has been restated to reflect AIs' reclassification of their working capital loans.

Source: HKMA.

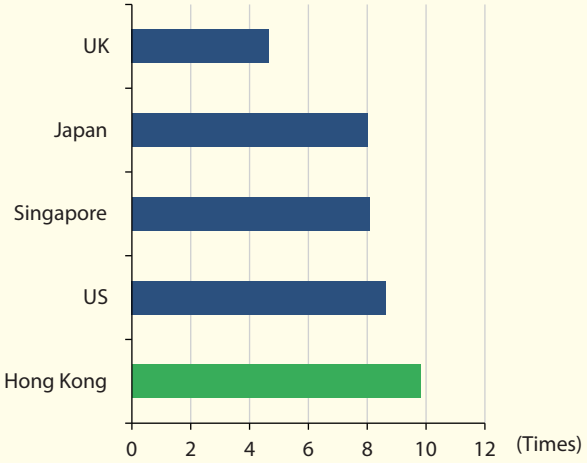
When interpreting the household debt-to-GDP ratio, it is important to note that the denominator of the ratio uses nominal GDP as a proxy for household income to facilitate cross-economy comparison. Therefore, the household debt-to-GDP ratio does not reflect the actual debt servicing burden on households.

A full and objective assessment of the risks associated with household debt requires other factors to be considered. In fact, the average debt servicing ratio (DSR) for new mortgages remained at a healthy 39.4% in July 2026. Furthermore, household net worth remains robust in Hong Kong, with both the net worth-to-liabilities ratio and the safe asset-to-liabilities ratio staying higher than those of other developed economies (Charts 5.9 and 5.10).

[51] Loans to households constitute lending to professional and private individuals, excluding lending for other business purposes. Mortgages account for a major proportion of household loans, while the remainder comprises mainly loans to private banking and wealth management customers secured by financial assets, credit card advances and unsecured personal loans. At the end of June 2026, household lending accounted for 37.9% of domestic lending. In this section, household debt is also referred to as loans to households.

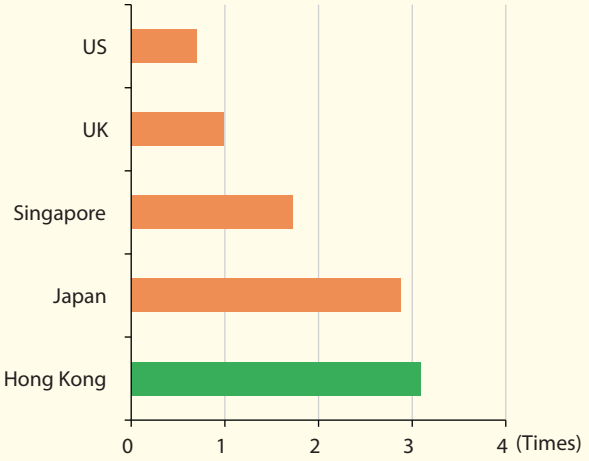
The HKMA continues to closely monitor household indebtedness. The majority of household debts comprises residential mortgage loans, which are governed by the macroprudential policy framework, and collateralised loans to wealth management customers, which are subject to prudent and effective credit risk management measures by banks. In addition, the HKMA requires banks to adopt prudent underwriting standards for credit card advance and unsecured personal loan business. Overall, the HKMA considers the household balance sheet to be healthy and the associated credit risk manageable.

Chart 5.9
Household net worth-to-liabilities ratio for selected economies



Note: Figures for Singapore, the UK and the US refer to end-2025, while figures for other economies (including Hong Kong) refer to end-2024.
Sources: Statistical agencies or central banks of selected economies, and HKMA staff estimates.

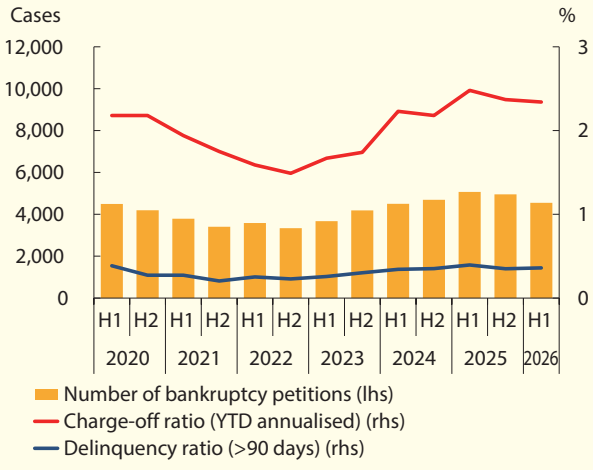
Chart 5.10
Safe assets-to-liabilities ratio for selected economies



Note: Safe assets comprise deposits, as well as currencies if data is available. In the case of Hong Kong, safe assets refer to deposits only. Figures for Singapore, the UK and the US refer to end-2025, while figures for other economies (including Hong Kong) refer to end-2024.
Sources: Statistical agencies or central banks of selected economies, and HKMA staff estimates.

For unsecured household exposure, the associated credit risk remained contained during the first half of 2026. The year-to-date annualised credit card charge-off ratio decreased to 2.34% at the end of June 2026 from 2.37% at the end of 2025 (Chart 5.11). The delinquency ratio was low at 0.36% in June of 2026.

Chart 5.11
Charge-off ratio and delinquency ratio for credit card lending and bankruptcy petitions

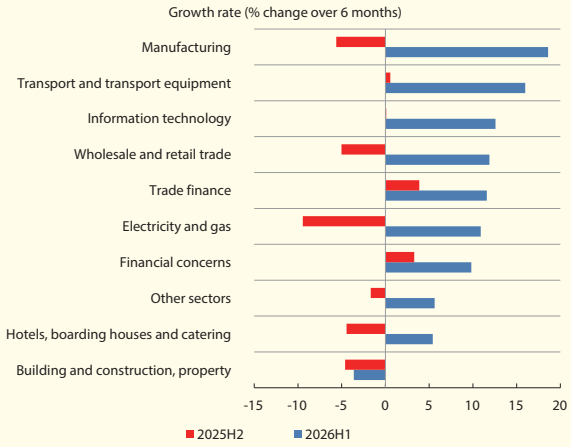


Sources: Official Receiver's Office and HKMA.

Corporate exposure[52]

Domestic corporate loans expanded by 6.5% during the first half of 2026, reversing a modest contraction of 1.9% in the second half of 2025. Lending to most economic sectors recorded positive growth, with particularly strong expansion in the manufacturing, transport and transport equipment, and information technology sectors (Chart 5.12).

Chart 5.12
Growth in domestic corporate loans by selected sectors

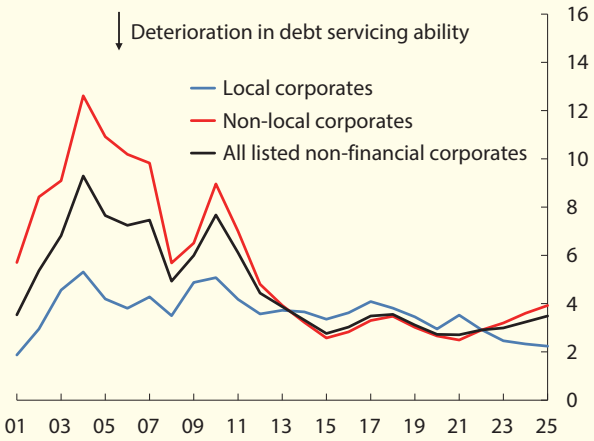


Source: HKMA.

The latest available financial information suggests improving financial health among listed corporates. The debt servicing ability of non-financial corporates listed in Hong Kong, indicated by the weighted average interest coverage ratio (ICR), increased in 2025 (Chart 5.13). Meanwhile, corporate leverage, indicated by the weighted average debt-to-equity ratio, declined moderately (Chart 5.14).

In the longer term, corporate resilience will depend on firms' ability to leverage new technologies to improve efficiency and revenue. Box 4 offers lessons learnt in this regard, drawing on the experience of digitalisation adoption by Hong Kong corporates in recent years.

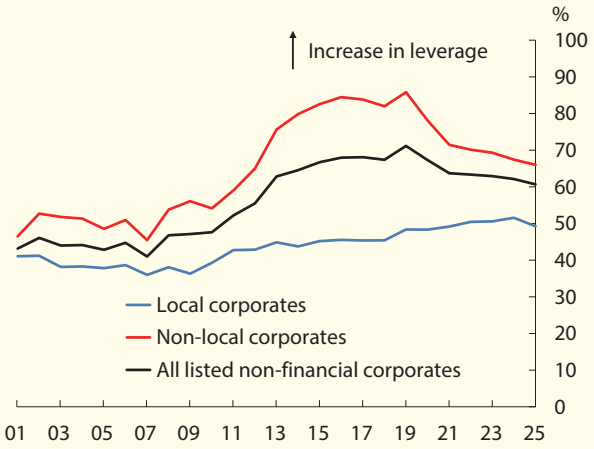
Chart 5.13
Interest coverage ratio of listed non-financial corporates in Hong Kong



Notes:
1. Weighted average figures.
2. The ICR is calculated by dividing the earnings before interest and tax by total interest expenses. A lower value indicates a deterioration in debt servicing ability.
3. All non-financial corporates listed on the Hong Kong Stock Exchange are selected. Local and non-local corporates refer to listed firms that are domiciled in and outside Hong Kong, respectively.
4. Figures are calculated based on information up to mid-August 2026.

Source: HKMA staff estimates based on data from Bloomberg.

Chart 5.14
Leverage ratio of listed non-financial corporates in Hong Kong



Notes:
1. Weighted average figures.
2. The leverage ratio is defined as the ratio of debt to equity. A higher value indicates higher leverage.
3. All non-financial corporates listed on the Hong Kong Stock Exchange are selected. Local and non-local corporates refer to listed firms that are domiciled in and outside Hong Kong, respectively.
4. Figures are calculated based on information up to mid-August 2026.

Source: HKMA staff estimates based on data from Bloomberg.

[52] Excluding interbank exposure. At the end of June 2026, the share of corporate loans in domestic lending was 62%.

Mainland-related lending

The banking sector's total Mainland-related lending increased by 7.6% to HK$4,263 billion (11.5% of total assets) at the end of June 2026 from HK$3,963 billion (11.5% of total assets) at the end of 2025 (Table 5.D). The gross CLR of Mainland-related lending of all AIs[53] further lowered to 1.81% at the end of June 2026 from 1.94% in the fourth quarter of 2025.

Table 5.D
Mainland-related lending

HK$ bn	Dec 2025	Mar 2026	June 2026
Mainland-related loans	3,963	4,133	4,263
Mainland-related loans excluding trade finance	3,733	3,855	3,993
Trade finance	230	278	270

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

Macro stress testing of credit risk[54]

Results from the latest macro stress testing on retail banks' credit exposure suggest that the Hong Kong banking sector remains resilient and capable of withstanding severe macroeconomic and corporate shocks. Table 5.E presents a simulated future credit loss rate of retail banks in the second quarter of 2028 under four specific macroeconomic shocks[55] and one corporate shock, based on information up to the second quarter of 2026. In stressed scenarios, the average expected credit losses two years after different shocks are estimated to be moderate, ranging from 0.86% (interest rate shock) to 1.26% (Hong Kong GDP shock).

Taking into account tail risk, the value-at-risk (VaR) at 99% confidence level (CL) of bank credit loss would increase in all five stressed scenarios, ranging from 2.28% (interest rate shock) to 3.16% (Hong Kong GDP shock).

Table 5.E
The mean and value-at-risk statistics of simulated credit loss distributions[1]

Scenario	Estimated credit loss (% of the loan portfolio) Mean	VaR at 99% CL
Baseline[2]	0.68	1.79
Stressed scenarios[3]		
Hong Kong GDP shock	1.26	3.16
Property price shock	0.87	2.29
Interest rate shock	0.86	2.28
Chinese Mainland GDP shock	1.07	2.65
Corporate Shock	1.21	2.94

Notes:
1. The assessments assume the economic conditions in 2026 Q2 as the current environment. The Monte Carlo simulation method is adopted to generate the credit loss distribution for each scenario.
2. Baseline scenario: no shock throughout the two-year period.
3. Stressed scenarios:
   Hong Kong GDP shock: reductions in Hong Kong's real GDP by 3.2%, 3.6%, 9.3% and 9.4% respectively in each of the four consecutive quarters starting from 2026 Q3.
   Property price shock: Reductions in Hong Kong's real property prices by an average of 12% in each of the four consecutive quarters starting from 2026 Q3.
   Interest rate shock: A rise in real interest rates by 0.1, 0.9, 1.8 and 3.2 percentage points respectively each of the four consecutive quarters starting from 2026 Q3.
   Chinese Mainland GDP shock: An average year-on-year real GDP growth rate of 2% for the four consecutive quarters starting from 2026 Q3.
   Corporate shock: Liquidity and earning shocks on listed corporates in Hong Kong are assumed such that all short-term debts of the corporates could not be rolled over together with a reduction in revenue for the corporates by 50% year-on-year in the first year of the stressed period. The impact of these shocks on the median default probability of corporates is estimated to serve as an input for the stress-testing exercise.

Source: HKMA staff estimates.

53 Figures cover AIs' Hong Kong offices and Mainland branches and subsidiaries.

54 Macro stress testing refers to a range of techniques used to assess the vulnerability of a financial system to "exceptional but plausible" macroeconomic shocks. The credit loss estimates presented in this report are obtained based on a revised framework presented in Box 4 of the *Half-Yearly Monetary and Financial Stability Report* published in September 2023. Estimates in the current report are not strictly comparable to estimates from previous reports.

55 These shocks are calibrated by referencing to the extreme episodes observed in the past. For instance, the Hong Kong GDP shock scenario replicates the severe economic downturn recorded between the third quarter of 2019 and the second quarter of 2020.

5.4 Risks and resilience

As discussed in the previous sections, the Hong Kong banking sector remained resilient. Nevertheless, several downside risk factors, including spillovers from debt vulnerabilities in US A.I. firms, ongoing geopolitical tensions in the Middle East, and uncertainty regarding the future path of US interest rates, could pose challenges to the Hong Kong banking sector going forward.

First, the sharp increase in debt financing of US A.I. firms to support capital expenditures has raised concerns about the debt sustainability of the sector. While fundamentals for large US A.I. firms remain strong, their earnings are pivotal to market sentiment. A substantial downward revision of earnings expectations could trigger a market correction, prompting lenders to tighten exposure to the sector and potentially leading to defaults. Our analysis suggests that any credit stress, should it materialize, would likely be concentrated among smaller A.I. firms in North America, approximately 60% of which are assessed as financially weak based on conventional financial metrics.[56] Although direct credit risk to the Hong Kong banking sector remains contained due to small exposures to A.I. firms in North America,[57] potential spillovers through equity market repricing and broader deterioration in market sentiment warrant close monitoring.

Second, the ongoing conflict in the Middle East remains a key downside risk to global growth outlook. While the direct impact on Hong Kong banking sector should be manageable given its relatively modest cross-border exposures to the region,[58] a prolonged conflict could disrupt global energy supply chains, heighten energy-driven inflationary pressures and weigh on growth outlook, particularly for net oil-importing economies in Asia. Banks with notable exposures to these economies should continue to assess the potential credit risk implications arising from such indirect channels.

Moreover, the future path of US monetary policy rate remains a critical risk factor. While the Fed has raised its US policy rate in September in response to high inflationary pressures, uncertainty remains over the extent and duration of further monetary tightening, which will depend on the evolution of inflation, conditions in the US labour market, and developments in the Middle East conflict. A sharper-than expected rate rise, or a prolonged period of elevated US interest rates, could tighten global financial conditions and push up interest rates in the region. This could weigh on corporate profitability and strain debt-servicing capacity, posing challenges to banks' credit risk management for their corporate exposures.

Nonetheless, given the robust capital and liquidity positions, combined with sufficient provisions, the Hong Kong banking sector is well positioned to withstand shocks arising from these downside risks.

[56] Firms are assessed as financially weak if they have an interest coverage ratio below 1 for two consecutive years, a debt-to-earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio greater than 6, or a debt-to-asset ratio greater than 1.

[57] Based on a representative sample of Hong Kong banks' corporate loans, exposures to A.I. firms in North America account for less than 1% of Hong Kong banks' corporate loans.

[58] The Hong Kong banking sector's external claims on Middle East jurisdictions amounted to HK$924 billion, accounting for 4.7% of total external claims at the end of June 2026.

The countercyclical capital buffer (CCyB) for Hong Kong

The CCyB is part of the internationally agreed Basel III standards, designed to enhance the resilience of the banking sector against system-wide risks. This buffer can be reduced during downturns, allowing banks to continue providing credit to support the real economy. The latest applicable jurisdictional CCyB for Hong Kong, announced on 18 October 2024, is 0.5%.[59]

In setting the CCyB, the Monetary Authority considered a series of indicators (Table 5.F), including an "indicative buffer guide" produced by the Initial Reference Calculator (IRC). The IRC is a metric that provides a guide for the CCyB by combining information from the gap between the ratio of credit-to-GDP and its long-term trend, the gap between the ratio of residential property prices to rentals and its long-term trend, and the Positive Neutral CCyB.[60] The setting of the CCyB for Hong Kong is, however, not a mechanical exercise. The Monetary Authority will consider a broad range of reference indicators ("Comprehensive Reference Indicators") and all relevant information available in addition to the indicative buffer guide produced by the IRC.[61]

Based on the latest assessment using the second quarter data of 2026 and the Positive Neutral CCyB according to the revised IRC formula,[62] the IRC signalled a CCyB of 1%. The projection based on all available data at the decision date suggests that the IRC would likely signal a CCyB of 1% when all relevant data for the third quarter of 2026 become available.

Considering the Comprehension Reference Indicators and all relevant information available at the time of the decision in September 2026, and noting that the two primary indicators remain deep in the negative, the Monetary Authority considered it appropriate to maintain the CCyB at its current level.

[59] For details, see the announcement of the CCyB to AIs in October 2024 (https://www.hkma.gov.hk/eng/key-functions/banking/banking-legislation-policies-and-standards-implementation/countercyclical-capital-buffer-ccyb/).

[60] The Positive Neutral CCyB, currently at 1% in Hong Kong effective from 1 April 2024, is a floor for the IRC and helps ensure the availability of sufficient buffer against possible exogenous system-wide shocks. Under the Positive Neutral CCyB approach, authorities aim for a positive CCyB when risks are judged to be neither subdued nor elevated. For more information, see the Bank for International Settlements' "Newsletter on positive cycle-neutral countercyclical capital buffer rates" dated 5 October 2022 (https://www.bis.org/publ/bcbs_nl30.htm).

[61] These include measures of bank, corporate, and household leverage; debt servicing capacity; profitability, asset quality, and funding conditions within the banking sector; and macroeconomic imbalances.

[62] Under the new CCyB framework effective from 1 April 2024, the IRC will be the higher of two constituent components: a Composite CCyB Guide based on the credit-to-GDP gap and the property price-to-rent gap, and a Positive Neutral CCyB that sets a floor for the IRC.

Table 5.F
Information related to the Hong Kong jurisdictional countercyclical capital buffer

	18-Oct-24	Q2-2026	Q3-2026
Announced CCyB	0.5%		
Date effective	18-Oct-24		
Initial Reference Calculator	1.00%	1.00%	1.00%
Basel Common Reference Guide	0.00%	0.00%	0.00%
Property Buffer Guide	0.00%	0.00%	0.00%
Composite CCyB Guide	0.00%	0.00%	0.00%
Positive Neutral CCyB	1.00%	1.00%	1.00%
Primary gap indicators			
Credit/GDP gap	–35.2%	–38.4%	–36.6%
Property price/rent gap	–25.6%	–21.2%	–19.4%

Notes:

1. The values of all CCyB guides and their respective input variables are based on public data available prior to the corresponding review/announcement date, and may not be the most recently available as of each quarter end (refer to SPM CA-B-1 for explanations of the variables).
2. Following the revised CCyB framework as effective from 1 April 2024, the 2.5% cap is applied on the Composite CCyB Guide instead of the Basel Common Reference Guide and Property Buffer Guide (refer to SPM CA-B-1 for details of the formula and explanation).

Source: HKMA.

Key performance indicators of the banking sector are provided in Table 5.G.

Table 5.G
Key Performance Indicators of the Banking Sector[1] (%)

	Jun 2025	Mar 2026	Jun 2026
Interest rates			
1-month HIBOR fixing[2] (quarterly average)	1.88	2.47	2.59
3-month HIBOR fixing (quarterly average)	2.54	2.65	2.74
BLR[3] and 1-month HIBOR fixing spread (quarterly average)	3.37	2.53	2.41
BLR and 3-month HIBOR fixing spread (quarterly average)	2.71	2.35	2.26
Composite interest rate[4]	1.26	1.25	1.37
		All AIs	
Balance sheet developments[5]			
Total deposits	+4.0	+1.0	+3.9
Hong Kong dollar	+1.8	+1.9	+3.4
Foreign currency	+5.9	+0.3	+4.3
Total loans	+1.9	+3.0	+3.3
Domestic lending[6]	+1.6	+3.0	+3.0
Loans for use outside Hong Kong[7]	+2.6	+3.1	+4.4
Negotiable instruments			
Negotiable certificates of deposit (NCDs) issued	+5.2	+3.9	+11.5
Negotiable debt instruments held (excluding NCDs)	+8.3	+4.8	+5.8
Asset quality			
As a percentage of total loans[8]			
Pass loans	95.87	95.93	96.11
Special mention loans	2.16	2.20	2.07
Classified loans[9] (gross)	1.97	1.87	1.82
Classified loans (net)[10]	1.22	1.19	1.12
Overdue > 3 months and rescheduled loans	1.58	1.46	1.47
Classified loan ratio (gross) of Mainland related lending[11]	2.16	1.79	1.81
Liquidity ratios (consolidated)			
Liquidity Coverage Ratio — applicable to category 1 institutions (quarterly average)	172.8	160.2	150.5
Liquidity Maintenance Ratio — applicable to category 2 institutions (quarterly average)	66.3	66.6	67.0
Net Stable Funding Ratio — applicable to category 1 institutions	143.9	140.9	137.9
Core Funding Ratio — applicable to category 2A institutions	189.4	182.2	184.6
		Retail banks	
Profitability			
Loan impairment charges as a percentage of average total assets (year-to-date annualised)	0.18	0.09	0.14
Net interest margin (year-to-date annualised)	1.47	1.53	1.53
Cost-to-income ratio (year-to-date)	36.7	33.4	34.6
		Surveyed institutions	
Asset quality			
Delinquency ratio of residential mortgage loans	0.13	0.13	0.11
Credit card lending			
Delinquency ratio	0.40	0.39	0.36
Charge-off ratio — quarterly annualised	2.57	2.25	2.45
— year-to-date annualised	2.48	2.25	2.34
		All locally incorporated AIs	
Capital adequacy (consolidated)			
Common Equity Tier 1 capital ratio	19.9	20.3	19.6
Tier 1 capital ratio	22.3	22.8	22.1
Total capital ratio	24.4	24.9	24.2
Leverage ratio	7.9	7.9	7.5

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.

Box 4
The implications of digitalisation adoption for Hong Kong non-financial corporates: An assessment based on textual analysis

Introduction[63]

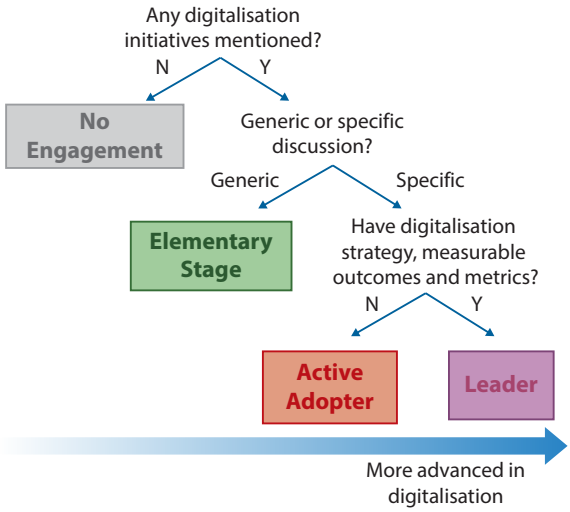
The rapid development of digital technology, particularly generative A.I. (GenA.I.), has prompted corporates worldwide to increasingly adopt the latest technologies to achieve efficiency gains and generate new value creation opportunities. While it may be too early to assess the full impact of firms' adoption of these cutting-edge technologies, digitalisation more broadly has been a long-term trend. Consequently, valuable lessons can be drawn from how digitalisation efforts in recent years have impacted corporates.

Against this backdrop, this box conducts a textual analysis to examine the extent of digitalisation adoption by non-financial corporates in Hong Kong in recent years and its implications for corporate performance and employment.[64]

Data sample and methodology

Since conventional financial data does not capture a firm's level of digitalisation adoption, this study leverages a GenA.I. tool to conduct textual analysis of annual reports and assess such adoption. The sample consists of 734 Hong Kong–listed corporates that are headquartered and operating in Hong Kong.[65] Based on the discussions regarding digitalisation initiatives in the annual reports of these corporates, we classify firms into four categories reflecting their level of engagement in digitalisation adoption, namely "*Leader*", "*Active Adopter*", "*Elementary Stage*", and "*No Engagement*". Specifically, the classification framework, as illustrated in Chart B4.1, considers whether firms have mentioned specific digitalisation projects or use cases, whether they have clear digitalisation strategies, and whether they report measurable outcomes of their digitalisation efforts.

Chart B4.1
Digitalisation adoption classification framework



The textual analysis employs a three-step process to classify firms into the above categories.

1) **Keyword extraction:** A keyword-based computer programming approach extracts relevant sections from each annual report that mention digitalisation initiatives.

2) **GenA.I. classification:** A GenA.I. model analyses the extracted sections and classifies each firm's level of digitalisation adoption for each fiscal year using a structured prompt.

[63] For details, please refer to Kong et al. (2025). "The implications of digitalisation adoption for Hong Kong non-financial corporates — An assessment based on textual analysis". *HKMA Research Memorandum*, 14/2025.

[64] It should be noted that this study discusses digitalisation more broadly, with the discussion not only confined to A.I. Thus, caution is warranted when interpreting the findings.

[65] The sample firms have annual reports available for all fiscal years from 2017 to 2024.

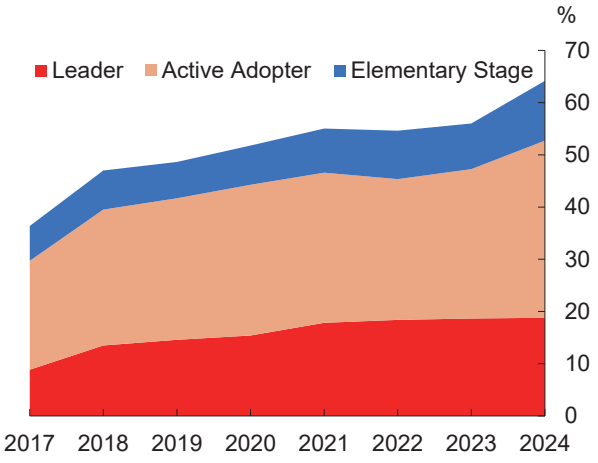
3) **Stability overlay:** To prevent spurious regression due to a temporary reporting lapse, when a firm's classification drops by one or more categories, we apply an overlay mechanism where we retain a firm's previous year's classification for the year of the classification drop. This assumes that a firm with established digital capabilities is unlikely to lose them in the short term, even if relevant initiatives are not repeatedly highlighted in every annual report.

Empirical analysis

Extent of digitalisation adoption

The textual analysis reveals that nearly two-thirds (64%) of the sample firms are currently engaged in digitalisation, up from around 49% in 2019. Over half (53%) are in more advanced stages (classified as *Leaders or Active Adopters*, and collectively classified as "more advanced firms"), up from 42% in 2019 (Chart B4.2).

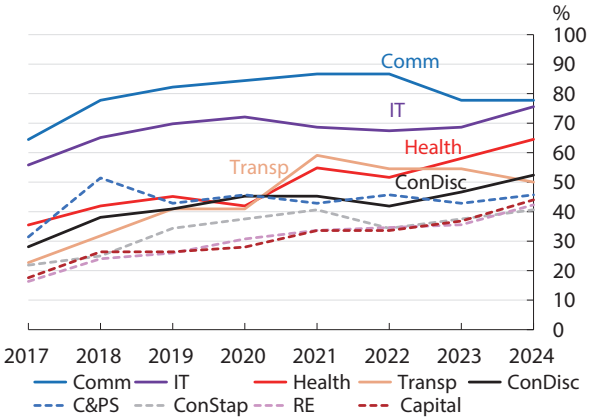
Chart B4.2
Share of firms adopting digitalisation



Sources: Firms' annual reports and HKMA staff calculation.

By sector, the communication services and information technology sectors are the most advanced, with over three-quarters of firms classified as *Leaders or Active Adopters* (Chart B4.3). This likely reflects their technology-focused nature. Importantly, many of these firms are also providers of technologies that enable other sectors to adopt digitalisation, such as providing data centres and software solutions.

Chart B4.3
Share of firms classified as *Leaders or Active Adopters*, by selected sector



Note: IT = information technology, Comm = communication services, ConDisc = consumer discretionary, Health = health care, Transp = transportation, Capital = capital goods, RE = real estate, C&PS = commercial and professional services, ConStap = consumer staples.

Sources: Firms' annual reports and HKMA staff calculation.

Following these, the health care, consumer discretionary, and transportation sectors are also more advanced than the rest of the economy. In particular, digitalisation adoption grew considerably since the COVID-19 pandemic for the health care and consumer discretionary sectors. This possibly reflects changes in consumer behaviour and new ways of delivering products and services, such as the growth of online shopping and video consultations, which also allow firms to use big data analytics for marketing and merchandising decisions.

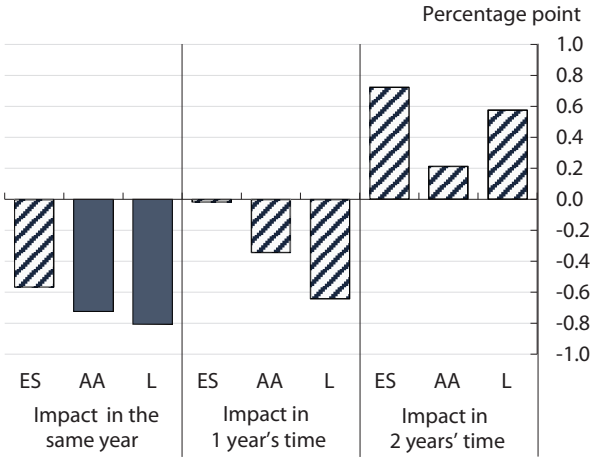
Meanwhile, a panel regression analysis shows that larger firms are more advanced in digitalisation adoption, likely because economies of scale enable them to afford the necessary investments and hiring.

Impact on corporate performance and employment

We estimate the impact of digitalisation adoption on three measures of corporate performance – return on assets (RoA), revenue growth, and price-to-book ratio (PB ratio) — using panel regression analysis.

The estimation results show that digitalisation adoption initially had a negative contemporaneous impact on RoA, with statistically significant reductions of 0.7–0.8 percentage points for *Active Adopters* and *Leaders* relative to *No Engagement* firms. This likely reflects the upfront costs of investment in intangible assets and increased hiring of relevant experts. The estimated impact turns positive after two years but is not statistically significant, suggesting that profitability benefits take time to materialise (Chart B4.4).

Chart B4.4
The estimated impact of digitalisation adoption on return on assets (%)

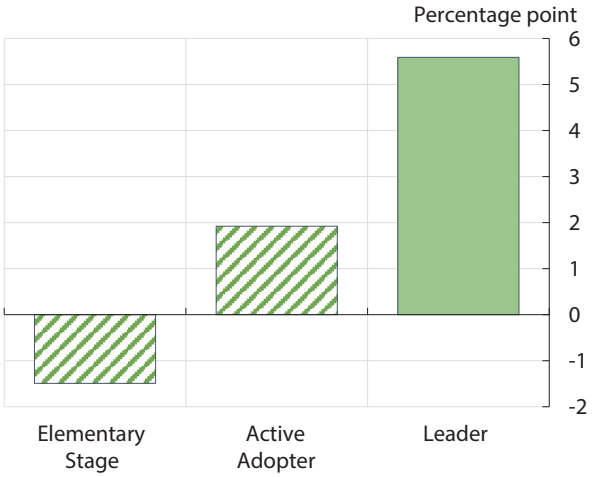


Notes:
1. Solid bars denote a statistically significant impact (at the 1%, 5%, or 10% level), relative to *No Engagement* firms.
2. ES = Elementary Stage, AA = Active Adopter, L = Leader.

Source: HKMA staff estimates.

Although digitalisation adoption did not appear to enhance profitability in the near term, we find that *Leaders* in digitalisation enjoyed higher revenue growth (by nearly six percentage points) when they embarked on digitalisation (Chart B4.5). Meanwhile, *Leaders* also enjoyed an uplift in their PB ratios of 0.3 units in the same period (Chart B4.6). This suggests that investors perceive better prospects for these firms, including higher profitability and a more resilient and sustainable business model in the longer term.

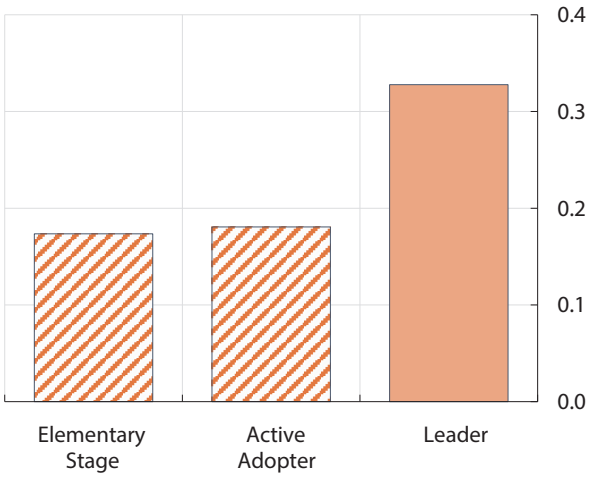
Chart B4.5
The estimated impact of digitalisation adoption on revenue growth, in the same year



Note: Solid bars denote a statistically significant impact (at the 1%, 5%, or 10% level), relative to *No Engagement* firms.

Source: HKMA staff estimates.

Chart B4.6
The estimated impact of digitalisation adoption on price-to-book ratio, in the same year



Note: Solid bars denote a statistically significant impact (at the 1%, 5%, or 10% level), relative to *No Engagement* firms.
Source: HKMA staff estimates.

Finally, we also look at the impact of digitalisation adoption on corporate employment. The results suggest that digitalisation adoption did not have a notable adverse impact on overall employment growth in the short term. In fact, more advanced firms saw higher growth, or a smaller decline, in employment, relative to *No Engagement* firms. It is, however, worth noting that digitalisation may have a heterogeneous impact across occupations, which is not captured by the dataset used in this study.[66]

Conclusion and implications

This study finds that digitalisation adoption among Hong Kong corporates has grown meaningfully in recent years, with nearly two-thirds of sample firms now engaged in digitalisation and over half in more advanced stages. Larger firms tend to be more advanced, possibly benefiting from economies of scale. Although digitalisation adoption had a negative short-term impact on profitability, the most advanced firms enjoyed higher revenue growth and an uplift in market valuations.

These findings underscore the importance for Hong Kong corporates to engage deeply in digitalisation to remain competitive and resilient. In addition, as larger firms tend to be more advanced, smaller firms face a greater risk of losing competitiveness. Targeted support for smaller firms such as small and medium-sized enterprises (SMEs) to adopt and invest in digital solutions is therefore warranted. The HKMA and the banking sector have launched several rounds of measures,[67] including offering credit products and services (such as loans with flexible repayment) to support SMEs in business expansion and their digital and green transformation.

Overall, this study offers ins ightful lessons learnt for assessing the implications of the latest A.I. technologies, although the findings should be interpreted with caution since the impact of A.I. may be more profound than digitalisation in the past.

[66] Our dataset does not allow for a breakdown of firm-level full-time employees by skillset. A thorough analysis of the impact on employees with different skillsets is beyond the scope of this study.

[67] For details of the SME support measures introduced by the HKMA and the banking sector, please visit the HKMA's Supporting SMEs webpage (https://www.hkma.gov.hk/eng/key-functions/banking/banking-regulatory-and-supervisory-regime/supporting-smes/).