

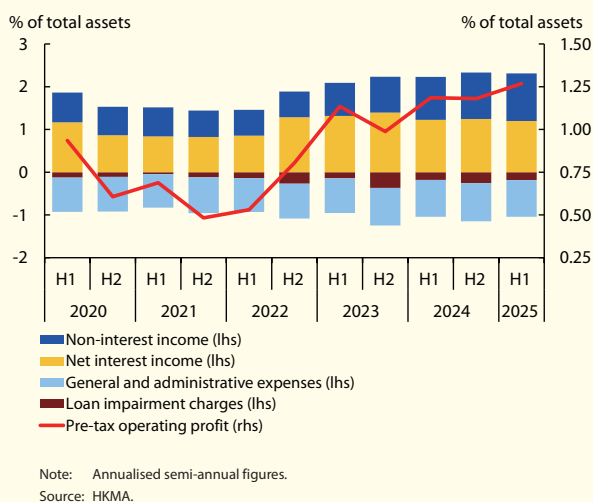
5. Banking sector performance

5.1 Profitability

Profitability

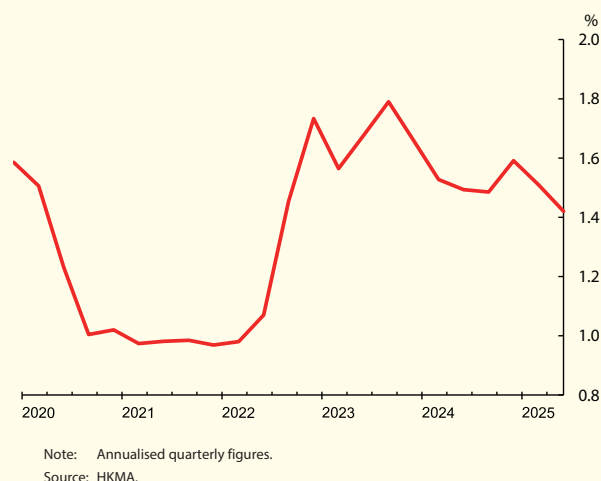
The aggregate pre-tax operating profit of retail banks⁴⁹ grew by 13.4% in the first half of 2025 compared with the same period in 2024. The increase in earnings was mainly attributable to increases in income from foreign exchange and derivatives operations and income from fees and commissions, which offset a decrease in income from investments held for trading. Overall, banks' return on assets improved to 1.27% in the first half of 2025, compared with 1.19% in the same period in 2024 (Chart 5.1).

Chart 5.1
Profitability of retail banks



Partly reflecting the decline in Hong Kong dollar (HKD) interest rates during the review period, retail banks' net interest margin narrowed to 1.47% in the first half of 2025 from 1.51% in the same period in 2024 (Chart 5.2).

Chart 5.2
Net interest margin of retail banks

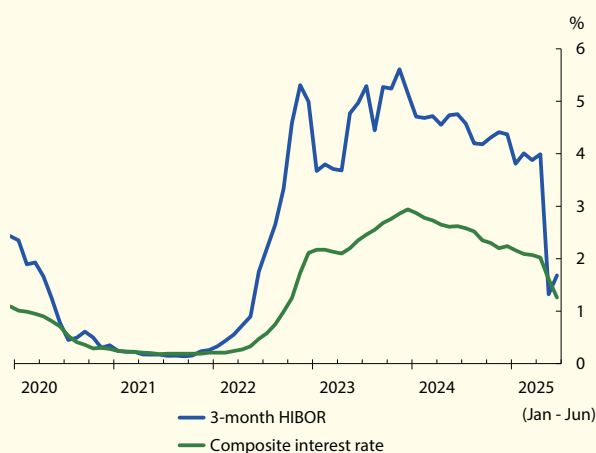


As liquidity conditions eased following the expansion of the Aggregate Balance in May this year, the short-term Hong Kong Interbank Offered Rates (HIBORs) decreased sharply in the first half of 2025. For instance, the 3-month HIBOR declined by 269 basis points in the first half of 2025, reaching 1.68% at the end of June 2025 (blue line in Chart 5.3). However, with the reduction of the Aggregate Balance following weak-side CU triggering between late June and mid-August, HIBOR began to pick up since then.

On the retail front, retail banks reduced their HKD time deposit rates amid ample liquidity. Reflecting decreases in both wholesale and retail funding costs, the composite interest rate (a measurement of the average cost of HKD funds for retail banks) decreased by 98 basis points to 1.26% at the end of June 2025 (green line in Chart 5.3), though at a slower pace of decline than that of HIBORs.

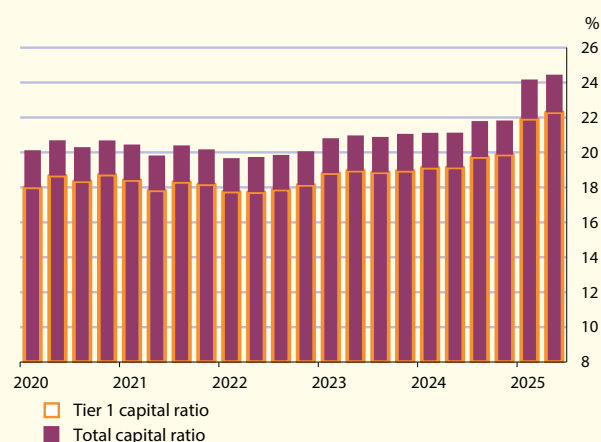
⁴⁹ Throughout this chapter, figures for the banking sector relate to banks' Hong Kong offices only, unless otherwise stated.

Chart 5.3
HKD Interest rates



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

Chart 5.4
Capital positions of locally incorporated authorized institutions



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 high level of 24.4% at the end of the first half of 2025 (Chart 5.4), well above the international minimum requirement of 8%.⁵⁰ In addition, the non-risk-based Leverage Ratio of locally incorporated AIs stood at a healthy level of 7.9% at the end of June 2025, 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, also remained sound during the review period. The average Liquidity Coverage Ratio (LCR) of category 1 institutions and the average Liquidity Maintenance Ratio (LMR) of category 2 institutions were 172.8% and 66.8% respectively in the second quarter of 2025 (upper two rows in Table 5A), remaining well above their corresponding statutory minimum requirements of 100% and 25%.

Table 5.A
Liquidity and funding requirement ratios

Ratios (%)	Dec 2024	Mar 2025	Jun 2025
Liquidity Coverage Ratio (quarterly average)	178.4	182.5	172.8
Liquidity Maintenance Ratio (quarterly average)	67.0	67.0	66.8
Net Stable Funding Ratio	143.4	143.0	143.9
Core Funding Ratio	186.7	186.8	191.1

Note: Consolidated basis.
Source: HKMA.

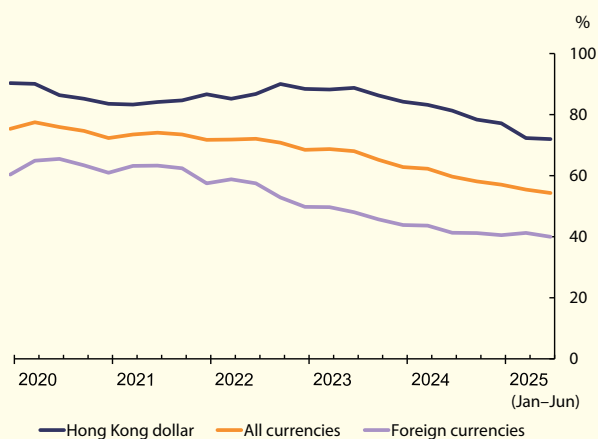
⁵⁰ The Tier 1 capital ratio and the Common Equity Tier 1 (CET1) capital ratio were 22.3% and 19.9% respectively.

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Meanwhile, the average Net Stable Funding Ratio of category 1 institutions remained at 143.9% as at the end of June 2025, well above the statutory minimum requirement of 100%. The average Core Funding Ratio of category 2A institutions increased to 191.1% (bottom two rows in Table 5A), substantially above the statutory minimum requirement of 75%.

The average all-currency loan-to-deposit (LTD) ratio of all AIs declined further to 54.3% at the end of June 2025, compared to 57.0% at the end of December 2024 (Chart 5.5). The decline in the ratio was attributable to the relatively faster growth rate of total deposits than that of total lending during the review period. The HKD and foreign-currency LTD ratios decreased to 72.0% and 40.0% at the end of June 2025 respectively, compared to 77.1% and 40.5% six months ago.

Chart 5.5
Average loan-to-deposit ratios of all authorized institutions



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

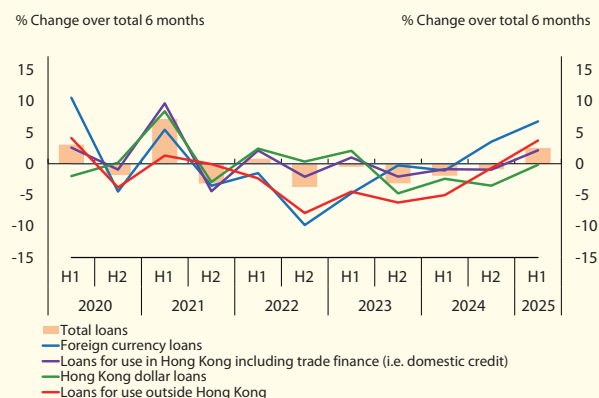
5.3 Credit risk

Overview

Total bank credit reverted to positive growth in the first half of 2025. On a half-yearly basis, the total loans and advances of all AIs increased by 2.5% in the first half of 2025, after decreasing by 0.9% in the second half of 2024 (Chart 5.6).

Contributing to this growth were moderate increases in both domestic loans (comprising loans for use in Hong Kong and trade financing) and loans for use outside Hong Kong, which respectively increased by 2.1% and 3.7% in the first half of 2025.

Chart 5.6
Loan growth



Source: HKMA.

Banking sector performance

Credit demand is expected to remain stable in the near term. According to the results of the HKMA Opinion Survey on Credit Condition Outlook in June 2025, 70% of the surveyed AIs expect loan demand to stay the same in the coming three months (Table 5.B), similar to the expectation level recorded six months ago.

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

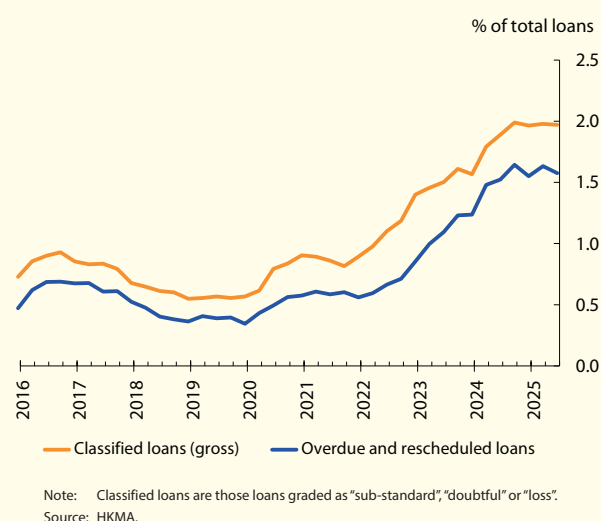
% of total respondents	Dec 2024	Mar 2025	Jun 2025
Considerably higher	0	0	0
Somewhat higher	20	13	17
Same	73	63	70
Somewhat lower	7	23	13
Considerably lower	0	0	0
Total	100	100	100

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

The classified loan ratio (CLR) continued to face upward pressure during the review period, but the overall asset quality of the banking sector remained manageable, with banks maintaining sufficient provisions. The gross CLR of all AIs edged up to 1.97% at the end of June 2025 from 1.96% at the end of December 2024. The ratio of overdue and rescheduled loans of all AIs also rose from 1.55% at the end of December 2024 to 1.58% at the end of June 2025 (Chart 5.7).

The upward pressure in CLR in recent periods was largely driven by commercial real estate (CRE) loans, as the CRE market has been under pressure from factors including interest rates and market supply and demand dynamics. Nonetheless, banks' credit risk associated with CRE loans is assessed to be manageable.⁵¹

Chart 5.7
Asset quality of all authorized institutions



Household exposure⁵²

Household debt grew by 1.8% in the first half of 2025, faster than the 0.6% increase in the second half of 2024 (Table 5.C). A breakdown of the data shows that the growth of residential mortgage loans increased to 1.2% in the first half of 2025 amid increased residential property transactions during the period. Over the same period, the growth of personal loans increased to 3.1%.

⁵¹ For details, see the inSight article "Credit risk management of commercial real estate exposures" issued on 13 August 2025 (<https://www.hkma.gov.hk/eng/news-and-media/insight/2025/08/20250813/>)

⁵² Loans to households constitute lending to professional and private individuals, excluding lending for other business purposes. Mortgages account for the 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 2025, household lending accounted for 37.1% of domestic lending. In this section, household debt is also referred to as loans to households.

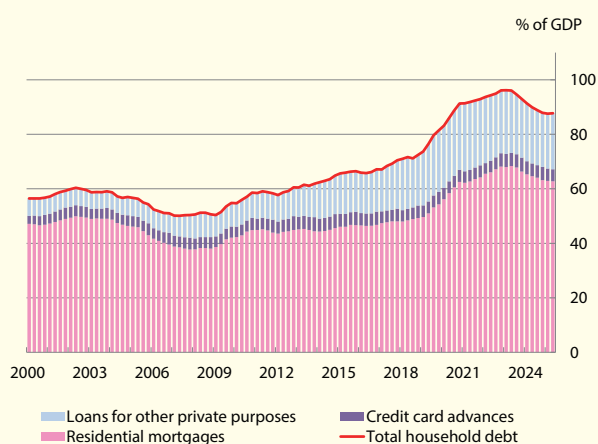
Table 5.C
Half-yearly growth of loans to households by all authorized institutions

(%)	2022		2023		2024		2025
	H1	H2	H1	H2	H1	H2	H1
Residential mortgages	2.1	1.9	2.6	0.8	0.8	0.6	1.2
Personal loans	-2.5	-2.2	1.4	-0.3	-1.7	0.5	3.1
of which:							
Credit card advances	-5.3	14.4	0.2	10.5	-5.3	6.7	-7.0
Loans for other private purposes	-2.0	-5.1	1.6	-2.6	-0.9	-1.0	5.6
Total loans to households	0.7	0.7	2.2	0.5	0.0	0.6	1.8

Source: HKMA.

The household debt-to-GDP ratio decreased slightly to 87.8% in the first half of 2025 (Chart 5.8) from 87.9% in the second half of 2024, as Hong Kong's nominal GDP grew at a faster pace than household debt.

Chart 5.8
Household debt-to-GDP and its components



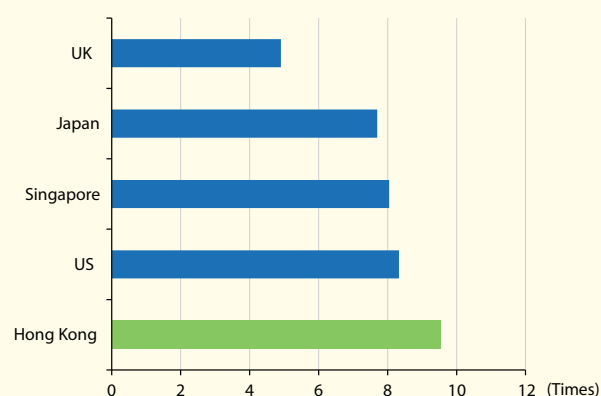
When interpreting the household debt-to-GDP ratio, it is important to take into account that the denominator of the ratio uses nominal GDP as a proxy for household income for ease of comparison across economies. Therefore, the household debt-to-GDP ratio does not reflect the actual debt servicing burden of households in the economy.

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) of new mortgages remained at a healthy level of 39.7% in July 2025.

Household net worth has also stayed at a high level, with both the net worth-to-liabilities ratio and the safe asset-to-liabilities ratio of Hong Kong's household sector (Charts 5.9 and 5.10) remaining higher than those of most other developed economies.

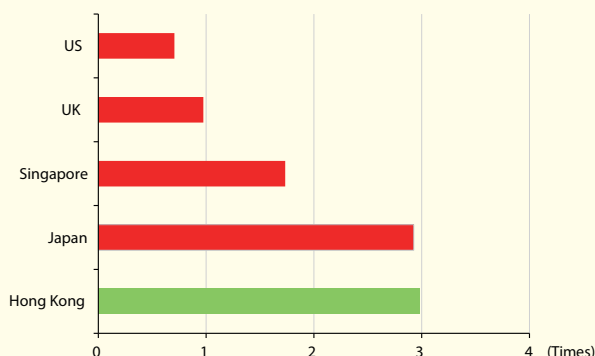
The HKMA has been closely monitoring household indebtedness. The majority of household debts are residential mortgage loans, which are governed by the macroprudential policy framework, as well as collateralised loans to wealth management customers, which are subject to prudent and effective credit risk management measures by banks. The HKMA also requires banks to adopt prudent underwriting standards for credit card advance and unsecured personal loan businesses. Altogether, the HKMA considers the household balance sheet to be healthy and the associated credit risk to be manageable.

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



Banking sector performance

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

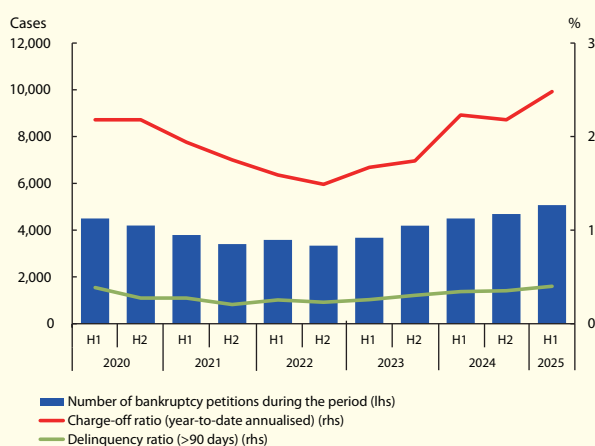


Note: Safe assets comprise deposits, as well as currencies if data is available. In the case of Hong Kong, safe assets refer to deposits only. Figures for Singapore, the UK and the US refer to end-2024, while figures for other economies (including Hong Kong) refer to end-2023.

Sources: Statistical agencies or central banks of selected economies, and HKMA staff estimates.

While the credit risk situation for unsecured household exposure has deteriorated slightly, it remained contained during the review period. The year-to-date annualised credit card charge-off ratio rose to 2.48% in the first half of 2025 from 2.18% at the end of 2024 (Chart 5.11). The delinquency ratio edged up to 0.40% in June 2025.

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

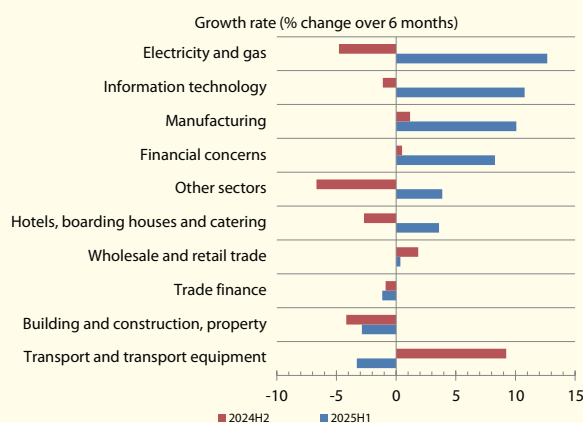


Sources: Official Receiver's Office and HKMA.

Corporate exposure⁵³

Domestic corporate loans grew by 2.4% during the first half of 2025, marking the first positive half-yearly growth since the first half of 2023. Lending to the electricity and gas, information technology, and manufacturing sectors registered higher growth, while loans to the transport and transport equipment, and the building, construction and property sectors declined moderately (Chart 5.12).

Chart 5.12
Growth in domestic corporate loans by selected sectors



Source: HKMA.

The demand-side survey on the credit conditions of small and medium-sized enterprises (SMEs) showed that SMEs' credit conditions remained broadly stable. In the second quarter of 2025, 35% of respondents perceived more difficult credit approval (Chart 5.13), a proportion that was within the normal range.

Meanwhile, among respondents with existing credit lines, only 1% reported a "tighter" banks' stance (Chart 5.14). In this survey, a tighter stance on existing credit lines denotes a range of possible measures or arrangements, such as raising the interest rate. Therefore, respondents' indication may not directly reflect banks' supply of credit to SMEs.

⁵³ Excluding interbank exposure. At the end of June 2025, the share of corporate loans in domestic lending was 62.8%.

Banking sector performance

Chart 5.13
SMEs' perception of banks' credit approval stance relative to six months ago

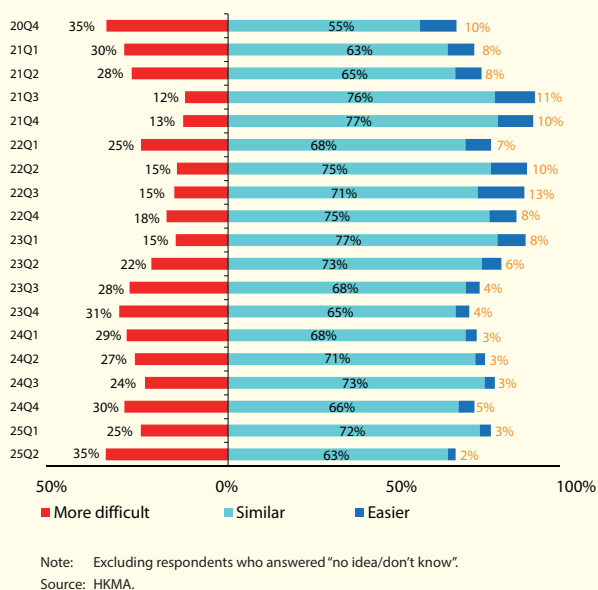
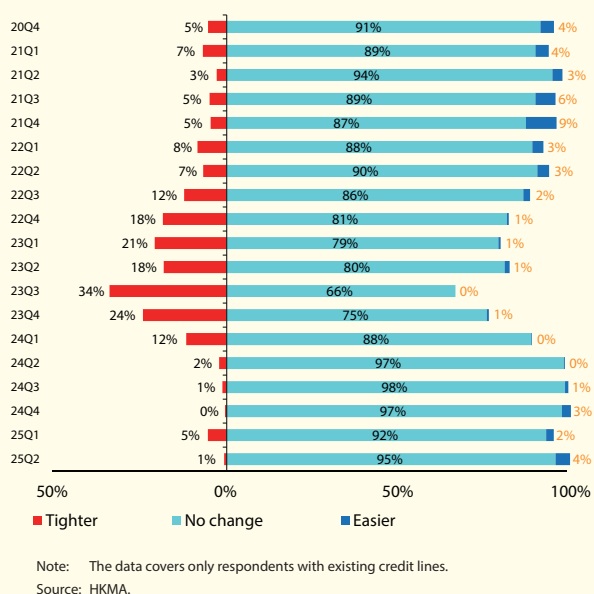


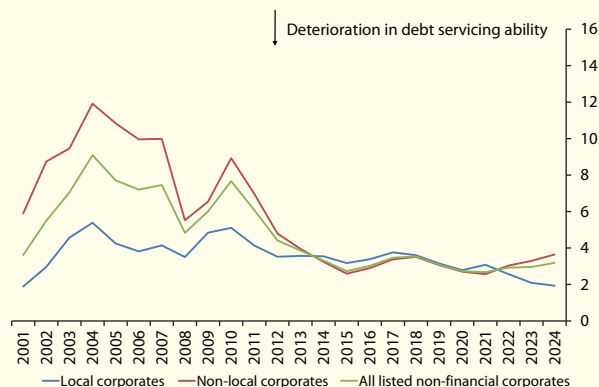
Chart 5.14
SMEs' reported change in banks' stance on existing credit lines



The HKMA and the banking sector have continued to support SMEs to cope with the changing business environment. In light of the global trade tensions and external uncertainties, additional support measures were introduced on 8 April to further assist SMEs from various industries in obtaining bank financing and in their upgrade and transformation.⁵⁴ The total amount of dedicated funds for SMEs set aside by the 18 participating banks in the Taskforce on SME Lending has increased to more than HK\$390 billion.

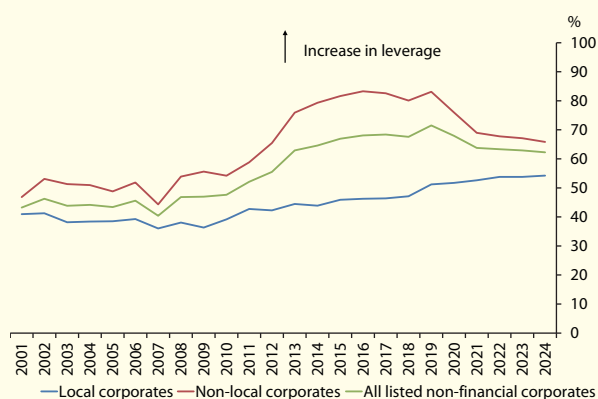
The latest available financial information presents a broadly stable picture of the financial health of listed corporates. The debt servicing ability of non-financial corporates listed in Hong Kong, as indicated by the weighted average interest coverage ratio (ICR), showed signs of improvement in 2024 (Chart 5.15). Meanwhile, corporate leverage, as indicated by the weighted average debt-to-equity ratio, fell slightly (Chart 5.16).

Chart 5.15
Interest coverage ratio of listed non-financial corporates in Hong Kong



⁵⁴ For details, see the press release "HKMA and banking sector support SMEs from various industries" on 8 April 2025 (<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2025/04/20250408-8/>).

Chart 5.16
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 early August 2025.

Source: HKMA staff estimates based on data from Bloomberg.

Mainland-related lending

The banking sector's total Mainland-related lending increased by 3.9% to HK\$4,023 billion (12.0% of total assets) at the end of June 2025, from HK\$3,873 billion (12.2% of total assets) at the end of 2024 (Table 5.D). The gross CLR of Mainland-related lending of all AIs⁵⁵ decreased to 2.16% at the end of June 2025 from 2.37% six months earlier.

Table 5.D
Mainland-related lending

HK\$ bn	Dec 2024	Mar 2025	Jun 2025
Mainland-related loans	3,873	3,915	4,023
Mainland-related loans excluding trade finance	3,650	3,694	3,801
Trade finance	223	221	222

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

Source: HKMA.

Macro stress testing of credit risk⁵⁶

Results of the latest macro stress testing on retail banks' credit exposure suggest the Hong Kong banking sector remains resilient and should be able to withstand severe macroeconomic and corporate shocks. Table 5.E presents a simulated future credit loss rate of retail banks in the second quarter of 2027 under four specific macroeconomic shocks and one corporate shock using information up to the second quarter of 2025. In stressed scenarios, the average expected credit losses two years after different shocks are estimated to be moderate, ranging from 0.92% (property price shock and interest rate shock) to 1.30% (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 2.42% (property price shock) to 3.25% (Hong Kong GDP shock).

⁵⁵ Figures cover AIs' Hong Kong offices and Mainland branches and subsidiaries.

⁵⁶ 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 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.

Table 5.E
The mean and value-at-risk statistics of simulated credit loss distributions¹

Scenario	Estimated credit loss (% of the loan portfolio)	
	Mean	VaR at 99% CL
Baseline ²	0.70	1.86
Stressed scenarios³		
Hong Kong GDP shock	1.30	3.25
Property price shock	0.92	2.42
Interest rate shock	0.92	2.43
Chinese Mainland GDP shock	1.15	2.86
Corporate Shock	1.28	3.12

Notes:

1. The assessments assume the economic conditions in Q2 2025 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 Q3 2025.
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 Q3 2025.
Interest rate shock: A rise in real interest rates by 0.1, 0.9, 1.8 and 3.2 percentage points respectively in each of the four consecutive quarters starting from Q3 2025.
Chinese Mainland GDP shock: An average year-on-year real GDP growth rate of 2% for the four consecutive quarters starting from Q3 2025.
Corporate shock: Liquidity and earning shocks on listed corporates in Hong Kong are assumed on the basis 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.

5.4 Risks and resilience

As shown in the previous sections, the Hong Kong banking sector remained resilient during the review period. However, several downside risk factors, including uncertainties related to global trade policies and local economic development, will continue to pose challenges to the Hong Kong banking sector going forward.

First, heightened trade tensions and tariff policy uncertainty could undermine global growth prospects. While some progress has been made on bilateral trade agreements since the announcement of reciprocal tariffs by the US, the eventual effective tariff rates imposed by the US are expected to be higher than before, weighing on the export sector. Although recent trade performance was temporarily supported by frontloading export activities, the negative impact of higher tariffs may gradually take a toll on the economic performance of major US trading partners, particularly in Asia.

In addition, the heightened uncertainty has fuelled asset market volatility, as global investors have sought portfolio diversification across markets globally. The resulting fund flows contributed to significant exchange rate fluctuations across many economies, including those in the Asia Pacific region.⁵⁷ This trend, if it persists, could pose considerable challenges to banks' corporate loan borrowers with unhedged currency mismatches.

On the domestic front, while the Hong Kong's overall economic growth remained solid in the first half of 2025, the subdued performance of some sectors could put pressure on the loan repayment ability of corporate borrowers. For example, the import and export sectors are under pressure from trade uncertainty, while recovery in the retail sector may take longer than expected. Slow retail sector recovery, combined with pressures from various factors including interest rates and market demand and supply conditions, posed further headwinds to the subdued CRE market.

⁵⁷ See Chart 2.2 in Chapter 2.

Given the robust capital and liquidity positions, coupled with sufficient provisions, the Hong Kong banking sector is well positioned to withstand shocks arising from these downside risk factors.

From a medium-term perspective, the growing digitalisation of the financial industry has led to higher dependency of financial institutions on information communication and technology (ICT) third-party providers. This trend could have implications for systemic operational risks, as service disruptions of major third-party providers could affect the operations of a large number of financial institutions. Box 4 examines the extent of ICT third-party dependency in the financial industry in the Asia Pacific region, and discusses the potential financial stability implications.

The Countercyclical Capital Buffer for Hong Kong

The Countercyclical Capital Buffer (CCyB) is part of the internationally agreed Basel III standards and is designed to enhance the resilience of the banking sector against system-wide risks. This buffer can be reduced in times of a downturn, 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%.⁵⁸

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,⁵⁹ and the Positive Neutral CCyB.⁶⁰ The setting of the CCyB for Hong Kong is, however, not a mechanical exercise and 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

In the latest assessment based on the second quarter data of 2025 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 2025 become available.

⁵⁸ 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/>).

⁵⁹ The credit-to-GDP gap is the gap between the ratio of credit to GDP and its long-term trend, while the property price-to-rent gap is the gap between the ratio of residential property prices to rentals and its long-term trend.

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. See https://www.bis.org/publ/bcbs_nl30.htm for more information.

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.

Taking into account the recent trends of the two primary gap indicators, which suggest that deleveraging and the property market correction may be continuing, the information drawn from the series of Comprehensive Reference Indicators and all relevant information available at the time of the decision in September 2025, the Monetary Authority considered it appropriate to maintain the CCyB at its current level.

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

	18-Oct-24	Q1-2025	Q2-2025	Q3-2025
Announced CCyB	0.5%			
Date effective	18-Oct-24			
Initial Reference Calculator	1.00%	1.00%	1.00%	1.00%
Basel Common Reference Guide	0.00%	0.00%	0.00%	0.00%
Property Buffer Guide	0.00%	0.00%	0.00%	0.00%
Composite CCyB Guide	0.00%	0.00%	0.00%	0.00%
Positive Neutral CCyB	1.00%	1.00%	1.00%	1.00%
<i>Primary gap indicators</i>				
Credit/GDP gap	-35.2%	-37.9%	-39.6%	-37.7%
Property price/rent gap	-25.6%	-29.2%	-28.0%	-27.4%

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). If there is a CCyB announcement, the date of the announcement is shown at the top of the respective column. Otherwise, the quarter in which a CCyB review takes place (normally close to quarter end) is shown at the top of the column.
2. Following the revised CCyB framework 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 Sector¹ (%)

	Jun 2024	Mar 2025	Jun 2025
Interest rates			
1-month HIBOR fixing ² (quarterly average)	4.39	3.88	1.93
3-month HIBOR fixing (quarterly average)	4.65	3.94	2.58
BLR ³ and 1-month HIBOR fixing spread (quarterly average)	1.49	1.37	3.32
BLR and 3-month HIBOR fixing spread (quarterly average)	1.23	1.31	2.67
Composite interest rate ⁴	2.62	2.07	1.26
All AIs			
Balance sheet developments⁵			
Total deposits	+3.4	+3.5	+4.0
Hong Kong dollar	+1.0	+5.1	+1.8
Foreign currency	+5.5	+2.2	+5.9
Total loans	-0.9	+0.6	+1.9
Domestic lending ⁶	+0.3	+0.5	+1.6
Loans for use outside Hong Kong ⁷	-4.6	+1.1	+2.6
Negotiable instruments			
Negotiable certificates of deposit (NCDs) issued	+5.2	-0.1	+5.2
Negotiable debt instruments held (excluding NCDs)	+2.1	+4.0	+8.3
Asset quality			
As a percentage of total loans ⁸			
Pass loans	96.18	95.77	95.87
Special mention loans	1.93	2.25	2.16
Classified loans ⁹ (gross)	1.89	1.98	1.97
Classified loans (net) ¹⁰	1.09	1.22	1.22
Overdue > 3 months and rescheduled loans	1.52	1.63	1.58
Classified loan ratio (gross) of Mainland related lending ¹¹	2.78	2.27	2.16
Liquidity ratios (consolidated)			
Liquidity Coverage Ratio — applicable to category 1 institutions (quarterly average)	183.3	182.5	172.8
Liquidity Maintenance Ratio — applicable to category 2 institutions (quarterly average)	67.9	67.0	66.8
Net Stable Funding Ratio — applicable to category 1 institutions	142.3	143.0	143.9
Core Funding Ratio — applicable to category 2A institutions	174.7	186.8	191.1
Retail banks			
Profitability			
Loan impairment charges as a percentage of average total assets (year-to-date annualised)	0.18	0.15	0.18
Net interest margin (year-to-date annualised)	1.51	1.51	1.47
Cost-to-income ratio (year-to-date)	38.3	35.9	36.7
Surveyed institutions			
Asset quality			
Delinquency ratio of residential mortgage loans	0.10	0.13	0.13
Credit card lending			
Delinquency ratio	0.34	0.37	0.40
Charge-off ratio — quarterly annualised	2.33	2.43	2.57
— year-to-date annualised	2.23	2.43	2.48
All locally incorporated AIs			
Capital adequacy (consolidated)			
Common Equity Tier 1 capital ratio	17.5	19.8	19.9
Tier 1 capital ratio	19.1	21.9	22.3
Total capital ratio	21.1	24.2	24.4
Leverage ratio	7.9	8.0	7.9

Notes:

- Figures are related to Hong Kong offices only except where otherwise stated.
- The Hong Kong Interbank Offered Rates are released by the Hong Kong Association of Banks.
- With reference to the rate quoted by The Hongkong and Shanghai Banking Corporation Limited.
- 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.
- Quarterly change.
- Loans for use in Hong Kong plus trade finance.
- Including "others" (i.e. unallocated).
- Figures are related to all AIs' Hong Kong offices, as well as locally incorporated AIs' branches and major subsidiaries outside Hong Kong.
- Classified loans are those loans graded as "substandard", "doubtful" or "loss".
- Net of specific provisions/individual impairment allowances.
- Figures are related to all AIs' Hong Kong offices, as well as locally incorporated AIs' Mainland branches and subsidiaries.

Box 4

Assessing information communication and technology third-party dependency of the financial industry in the Asia Pacific region

Introduction⁶³

The growing digitalisation of the financial industry has led to a higher dependency of financial institutions (FIs) on information communication and technology (ICT) third-party service providers (henceforth referred to as third-party providers, TPPs). This trend could have implications for FI's systemic operational risks, as service disruptions to major TPPs could affect the operations of a large number of FIs.

Against this background, this box assesses two key issues. One is the extent of the dependency on TPPs of FIs in the Asia Pacific (APAC) region. The other is the quality of the cybersecurity risk management of TPPs, and the extent to which FIs would take this factor into account when selecting their TPPs.

Data on direct and indirect dependency on TPPs

There are two types of dependency on TPPs, direct and indirect dependencies. A direct dependency arises, for example, when a bank uses a cloud storage service provided directly from a TPP. If the TPP employs another third-party ICT hardware provider in its operations, then the bank has an indirect dependency on the ICT hardware provider via the business relationship between the cloud storage provider and the hardware providers. This analysis assesses both direct and indirect dependencies.⁶⁴

We obtained data on FIs' dependency on TPPs based on customer-supplier business relationship data in S&P Capital IQ. We first collected from this data source a sample of FIs in the APAC region that have reported business relationship data from the data source. The sample included 1,145 FIs from four major types of companies in financial industry.⁶⁵ For each FI, we first identified their direct TPPs, and then further traced TPPs for all the direct TPPs to identify indirect TPPs for the sampled FIs in APAC. Our final sample contained 3,667 direct TPPs and 13,960 indirect dependencies with TPPs for the FIs in the APAC region. To more accurately identify TPPs deemed relevant to this study⁶⁶, we have employed generative artificial intelligence to analyse their business descriptions and industry classifications.

Chart B4.1 presents the results by the four major types of financial firms. The percentages shown in the blue and orange bars respectively represent the share of direct and indirect TPP dependencies of the four major types of FIs in the APAC region.

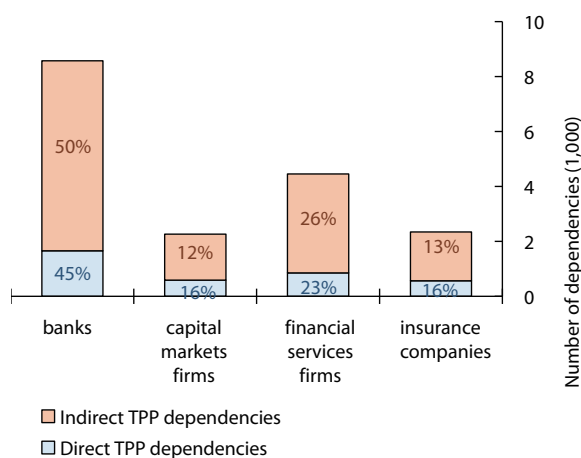
⁶³ For details, see Wong et al. (2025): "Assessing the information communication and technology third-party dependencies of financial service industry in Asia Pacific: An analysis of business relationship data", *HKMA Research Memorandum*, forthcoming.

⁶⁴ In this study, the dependency of FIs on TPPs is measured by the number of business relationships between the FI and TPP. In practice, the extent of a FI's dependency on a TPP can be influenced by several key factors, including the materiality of the TPP's services to FI's operations, the nature of services provided by the TPP, and the substitutability of a business relationship. However, these factors cannot be fully taken into account in our analysis due to data limitation. Given these caveats, the actual extent of FIs' dependencies on TPPs and the associated operational risk could differ from that found in this analysis.

⁶⁵ Of the 1,145 APAC FIs, 33%, 24%, 27% and 16% of them are banks, capital market, financial services and insurance companies respectively.

⁶⁶ In principle, the chain of indirect dependency could be extended further. To keep our analysis tractable, the indirect dependency of FIs is only captured up to "fourth-party" service providers.

Chart B4.1:
Numbers of direct and indirect dependencies with TPPs by types of FIs in the APAC region



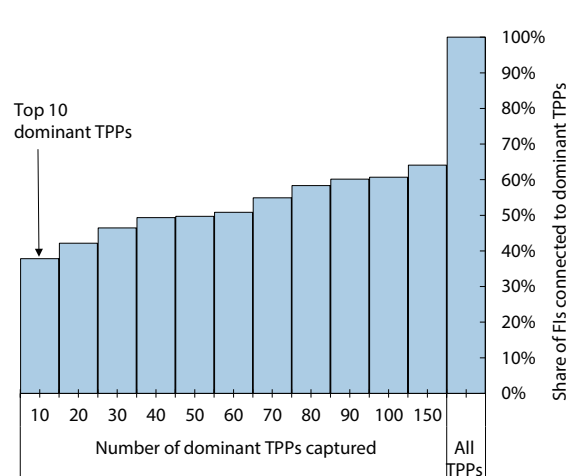
Source: HKMA staff estimates based on data from S&P Capital IQ.

Chart B4.1 shows significant dependencies on TPPs among the four major types of FI in the APAC region, particularly banks. Notably, there is a larger degree of indirect dependency on TPPs than direct dependency. This finding suggests that indirect dependency of TPPs could be a significant channel for the transmission of operational risks to FIs in the APAC region.

Analysing the extent of concentration risk

A high concentration of FIs' dependency on a few dominant TPPs could potentially expose the financial system to significant systemic operational risks in the event of service disruption. To gauge such concentration risk, we calculated the cumulative share of FIs serviced by the most dominant TPPs, ranking the TPPs by the total number of FIs that rely on them directly or indirectly. Chart B4.2 reveals that the concentration risk is sizable. For instance, the top 10 most dominant TPPs service 38% of the sampled FIs in the APAC region, while the top 50 TPPs service half of our sampled FIs. While this simple analysis has not accounted for the criticality of services by these dominant TPPs due to data limitation, this result suggests that the potential systemic risks arising from disruptions of dominant TPPs could be widespread, a situation that merits close monitoring.

Chart B4.2:
Cumulative share of FIs serviced by the most dominant TPPs



Source: HKMA staff estimates based on S&P Capital IQ business relationship data.

Do FIs select high-quality TPPs?

The analysis above indicates that FIs are subject to operational risks arising from both direct and indirect dependency on TPPs. Their risk levels are critically dependent on the quality of their TPPs' cybersecurity risk management.

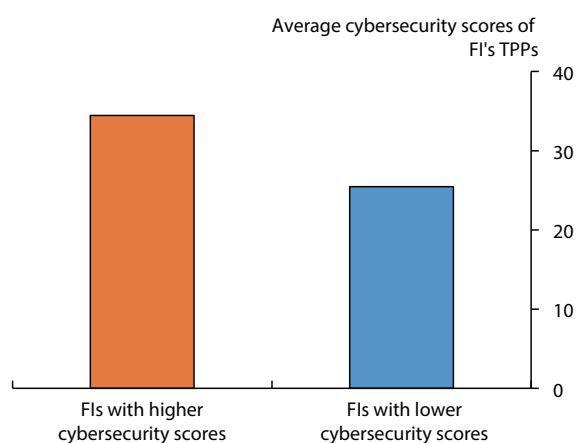
To assess the quality of TPPs' cybersecurity risk management, we employed the "Information Security/Cybersecurity & System Availability" score (denoted by the cybersecurity score), which is one component of the S&P Corporate Sustainability Assessment score, as a proxy for the quality of the TPPs' cybersecurity risk management.⁶⁷ The score ranges from 0 to 100, with a high score indicating a high quality of cybersecurity risk management. This score is also available for several sampled FIs.

⁶⁷ According to S&P, the firm-specific scores are calculated based on firms' responses to a tailored questionnaire. Specifically, the overall cybersecurity component score reflects several factors, including those related to the firm's governance, policy and management programs of information security.

There are two noteworthy findings. First, the group of TPPs selected by FIs in the APAC region tend to have better cybersecurity scores than those of the overall information technology sector, suggesting that FIs in the APAC region are generally selecting relatively higher-quality TPPs. For instance, both the average and median cybersecurity scores for our sampled TPPs were around 12 points higher than those for all firms in the IT sector.⁶⁸

Secondly, FIs with higher cybersecurity scores tend to select TPPs with higher cybersecurity scores (Chart B4.3). This probably reflects that FIs with better cybersecurity risk management would have a stronger incentive and ability to select TPPs with better cybersecurity risk management, and thus reduce the potential operational risks arising from their dependency on TPPs.

Chart B4.3:
Average cybersecurity scores of TPPs for FIs with different levels of cybersecurity risk management



Note: FIs with higher cybersecurity scores refer to those FIs with scores above the median, while FIs with lower scores refer to those with scores equal to or below the median.

Source: HKMA staff estimates.

Conclusion

The trend of digitalisation in the financial industry has led to FIs having significant dependencies on ICT TPPs. Our findings show that FIs in the APAC region are exposed to operational risks arising from both their direct and indirect dependency on TPPs.

We also observed that there are several dominant TPPs to provide services to a large number of FIs in the region. The potential for systemic risks arising from disruptions to these dominant TPPs warrants close monitoring.

Finally, our analysis reveals a strong correlation between the quality of FIs' cybersecurity risk management and that of their TPPs. This finding underscores the importance of FIs enhancing their cybersecurity risk management.

To this end, the HKMA has been providing industry guidance to help banks in Hong Kong to put in place effective cybersecurity measures covering their own operations as well as linkages with TPPs.⁶⁹

⁶⁸ The average cybersecurity scores of TPPs are derived based on the sample of TPPs with available cybersecurity score.

⁶⁹ See the Supervisory Policy Manual modules of the HKMA, including "SPM TM-C-1 Supervisory Approach on Cyber Risk Management", "SPM OR-1 Operational Risk Management", "TM-G-1 General Principles for Technology Risk Management" and "OR-2 Operational Resilience".