

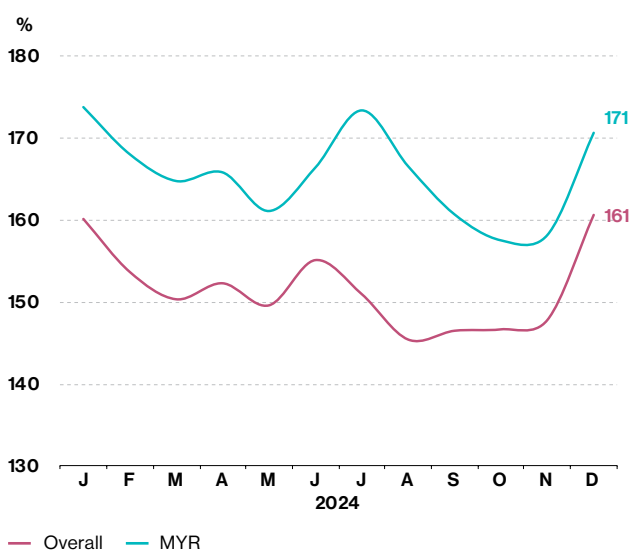
Financial Institution Soundness and Resilience

THE BANKING SECTOR

Banking system liquidity remained supportive of financial intermediation

Banks' liquidity and funding positions remained resilient against potential liquidity shocks in the second half of 2024. The aggregate Liquidity Coverage Ratio (LCR) (Chart 2.1) and Net Stable Funding Ratio (NSFR) (Chart 2.2) remained healthy and above regulatory minima, at 160.7% and 116.3% respectively as at end-December 2024 (June 2024: 155.2% and 115.5% respectively). Banks continued to hold adequate high-quality liquid assets (HQLA) (RM761.1 billion; June 2024: RM762.8 billion), mostly in the form of central bank placements and government bonds, which can be pledged in the interbank market or with BNM for access to additional liquidity.

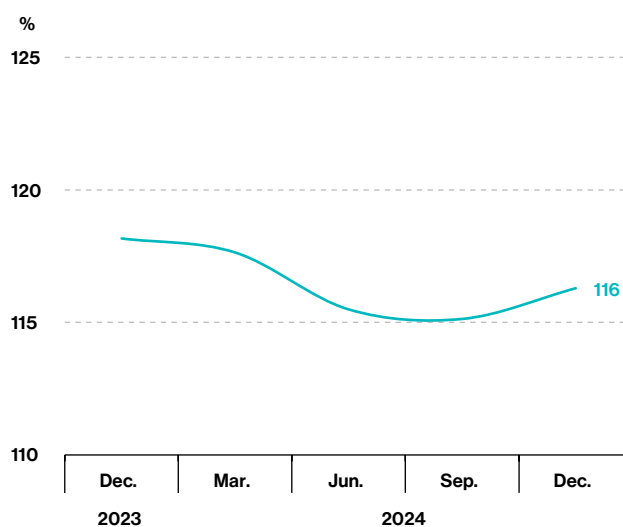
Chart 2.1: Banking System – Liquidity Coverage Ratio



Note: 1. MYR LCR is calculated based on HQLA and expected net cash outflows denominated in ringgit.
2. Overall LCR is calculated based on HQLA and expected net cash outflows denominated in all currencies.

Source: Bank Negara Malaysia

Chart 2.2: Banking System – Net Stable Funding Ratio



Source: Bank Negara Malaysia

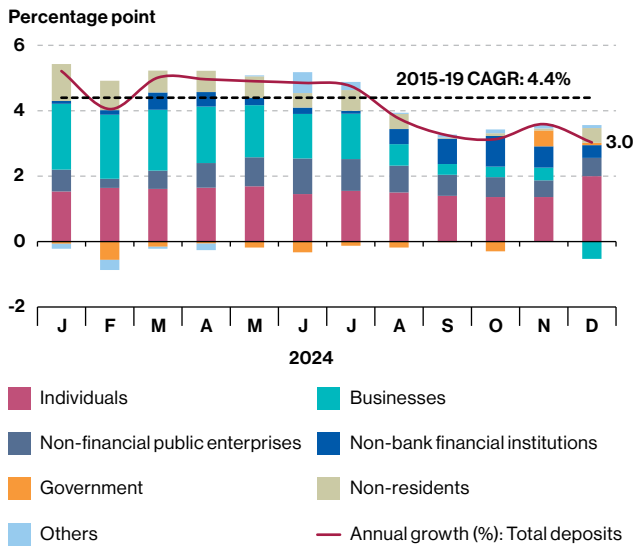
Banking system deposits grew at a slower pace of 3% in the second half of 2024 (2015–19 CAGR: 4.4%) (Chart 2.3), driven by the slower growth of deposits of resident businesses (including non-financial public enterprises) (year-on-year growth: 0.1%; June 2024: 7.5%).¹ This partly reflected higher costs and debt repayment by businesses. In terms of type of deposits, fixed deposits (including Commodity Murabahah²) form nearly half of the total banking system deposits (December 2024: 49%; June 2024: 48.7%; 2015–19 average: 51.2%) (Chart 2.4), providing banks with a source of more stable funding. Stress tests³ conducted by BNM further affirmed the banking system's resilience against liquidity shocks.

¹ The share of deposits of resident individuals and businesses (including non-financial public enterprises) out of banks' total deposits remained stable at 36.5% (June 2024: 36%) and 33.2% (June 2024: 33.7%) respectively.

² As at end-December 2024, Commodity Murabahah stood at RM538.5 billion, making up 21% of total banking system deposits.

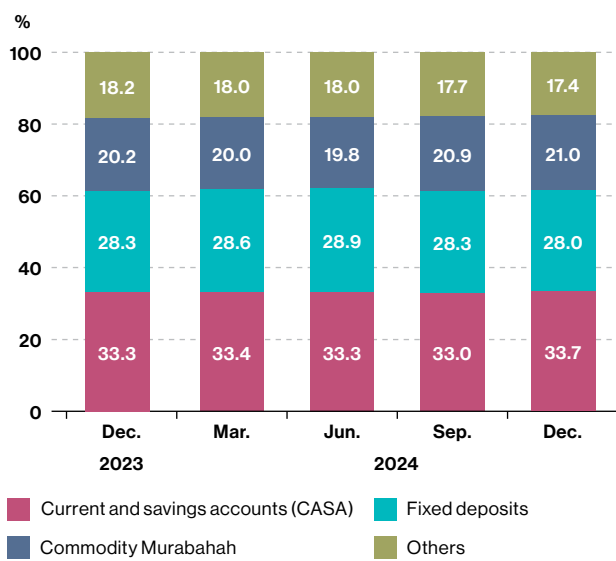
³ Refer to the section on 'Assessing the Resilience of Financial Institutions' for more details.

Chart 2.3: Banking System – Contribution to Growth in Deposits Accepted



Source: Bank Negara Malaysia

Chart 2.4: Banking System – Composition of Deposits by Type



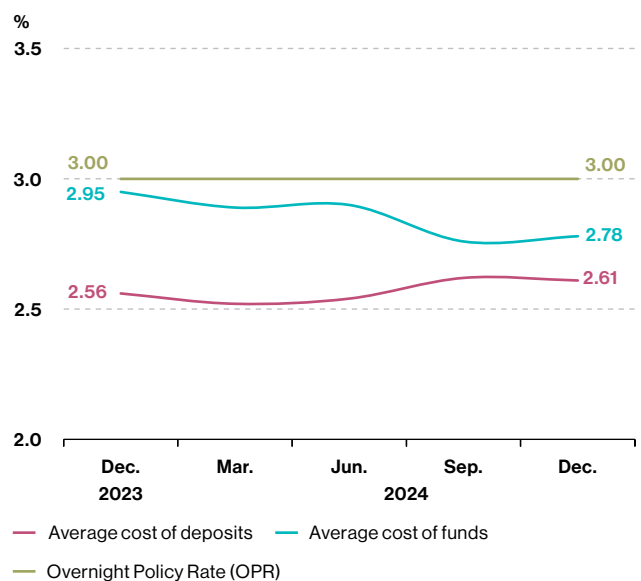
Source: Bank Negara Malaysia

The seasonal trend in deposit competition picked up towards the end of 2024 as banks built up liquidity buffers in anticipation of year-end withdrawals, especially from large depositors. Consequently, interest rates on corporate deposits rose in the fourth quarter. The increase in corporate deposit rates was, however, offset by the declining retail fixed deposit board rates⁴

⁴ The year-on-year change in the weighted average 3-month conventional retail fixed deposit rates is -17 basis points (bps).

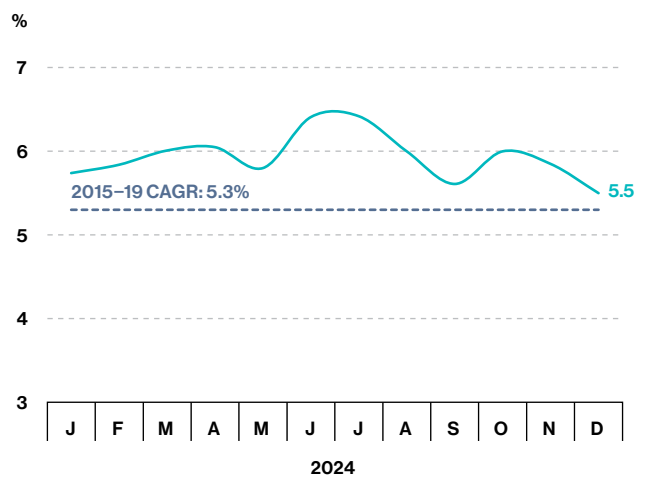
following measures by banks to actively manage their cost of funds. The declining average cost of money market funds (December 2024: 3.77%; December 2023: 3.92%) amid global policy rate cuts also eased banks' foreign currency (FCY) funding costs. As a result, banks' average cost of funds declined to 2.78% in December 2024 (June 2024: 2.90%) (Chart 2.5). Consistent with this, there was little evidence of a notable tightening in credit conditions. Banks continued to lend at a healthy rate (+5.5%; June 2024: +6.4%) (Chart 2.6).

Chart 2.5: Banking System – Average Cost of Deposits, Average Cost of Funds and OPR



Source: Bank Negara Malaysia

Chart 2.6: Banking System – Annual Loan Growth

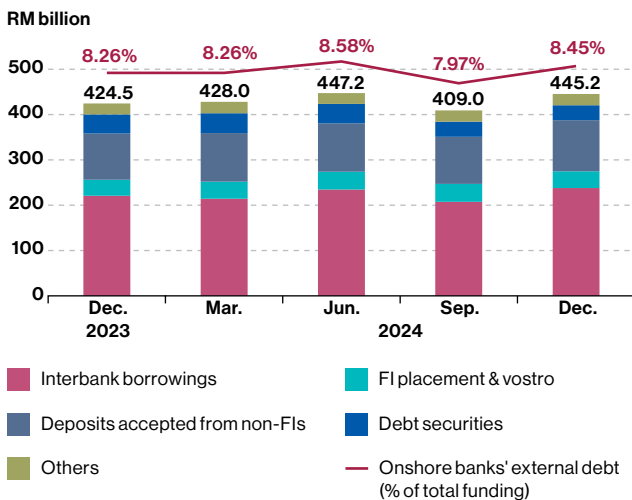


Source: Bank Negara Malaysia

Contagion risks from banks' exposures to external counterparties remained manageable

Banks' external debt remained broadly stable at RM445.2 billion in the second half of 2024 (June 2024: RM447.2 billion) (Chart 2.7). Interbank borrowings continued to make up the bulk of banks' external debt, with more than half being intra-group exposures. These exposures were mainly by locally incorporated foreign banks (LIFBs) sourcing funds from parent companies located abroad and by banks located in the Labuan International Business and Financial Centre (LIBFC) to facilitate transactions arranged and managed by foreign head offices. Additionally, some banks continued to utilise FCY swap arrangements for cheaper ringgit funding as effective cost of funds remained lower than KLIBOR. However, this accounted for only around 3.1% of total banks' funding and is not expected to grow significantly amid expectations of further Fed rate cuts in 2025.

Chart 2.7: Banks' External Debt – by Instrument



Note: Banks' external debt in this context refers to external debt of DBGs, LIFBs and banks in the Labuan International Business and Financial Centre (LIBFC).

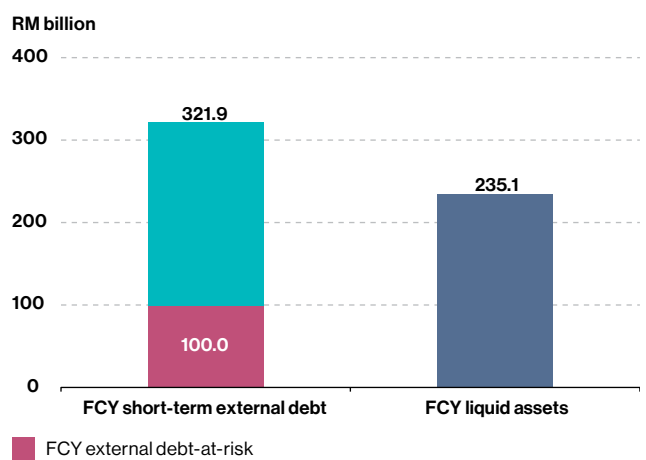
Source: Bank Negara Malaysia

Risks from banks' external debt continued to be limited as their reliance on external counterparties for domestic funding needs remained low. The bulk of banks' external exposures continued to be with related counterparties or in the form of long-term stable⁵ debt (76.9%; June 2024: 78.4% of total banks' external debt), minimising rollover and withdrawal risks. Meanwhile, short-term external debt with

unrelated counterparties is adequately buffered as banks continued to hold sufficient FCY liquid assets to cover up to 2.4 times (June 2024: 2.5 times) of total FCY external debt-at-risk⁵ (Chart 2.8).

Banks also continued to be resilient against foreign exchange (FX) risk. Given increased market volatility in the second half of 2024, banks actively managed their exposures by reducing their FX net open position (FX NOP) (Chart 2.9), which stood lower at 3.9% of total capital (June 2024: 5.2%; 2020–22 average: 4.2%).

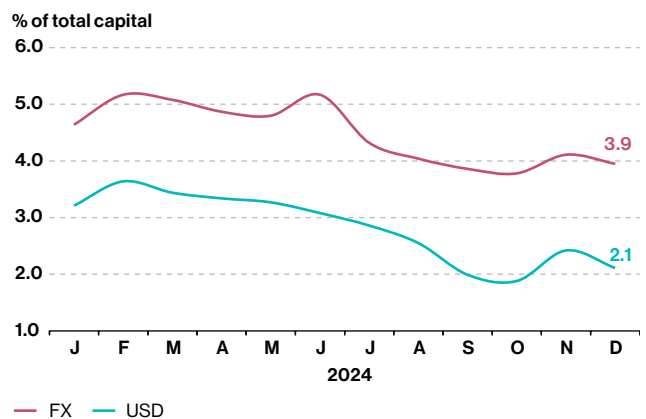
Chart 2.8: Banking System – FCY External Debt-at-Risk and Liquid Assets



Note: Liquid assets comprise cash and cash equivalents, unencumbered debt securities held and interbank placements.

Source: Bank Negara Malaysia

Chart 2.9: Banking System – FX and USD Net Open Positions



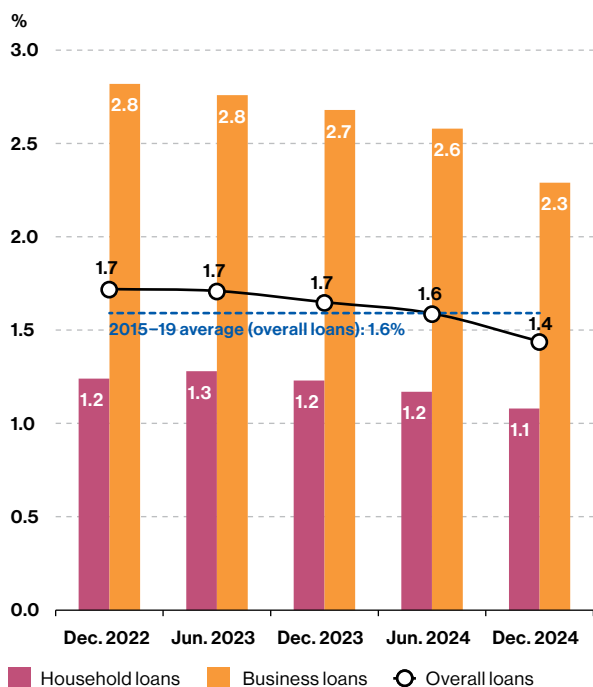
Source: Bank Negara Malaysia

⁵ Banks' external debt-at-risk or less stable debt comprises financial institutions' deposits, interbank borrowings and short-term loans from unrelated non-resident counterparties maturing within a year, which are considered to be more susceptible to sudden withdrawal shocks.

Banks' asset quality broadly improved

Banks' asset quality remained sound as most borrowers continued to show improvements in their debt-servicing ability. The gross impaired loans ratio declined to 1.4% in the second half of 2024 (June 2024: 1.6%) (Chart 2.10). The outlook for asset quality also improved, with the share of loans classified as Stage 2 declining further below the pre-pandemic average to 6.6% of banking system loans (June 2024: 7%; 2018–20 average: 8%) (Chart 2.11). Consistent with this, loans under repayment assistance programmes⁶ declined to 1.7% of total banking system loans (June 2024: 2%), while newly rescheduled and restructured loans of borrowers facing financial strains remained small at 0.08% of banks' total loans (June 2024: 0.09%). Nonetheless, banks continue to closely monitor pockets of vulnerable borrowers impacted by continued cost pressures particularly from lower-income households and businesses in the manufacturing, wholesale and retail, as well as hotels and restaurants sectors.

Chart 2.10: Banking System – Gross Impaired Loans Ratio

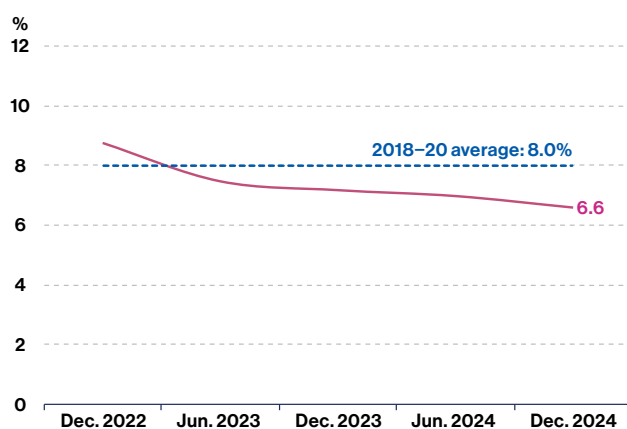


Source: Bank Negara Malaysia

⁶ Refers to all types of repayment assistance programmes including remaining loans under assistance extended under COVID-19, banks' bespoke packages, and restructuring and rescheduling (R&R).

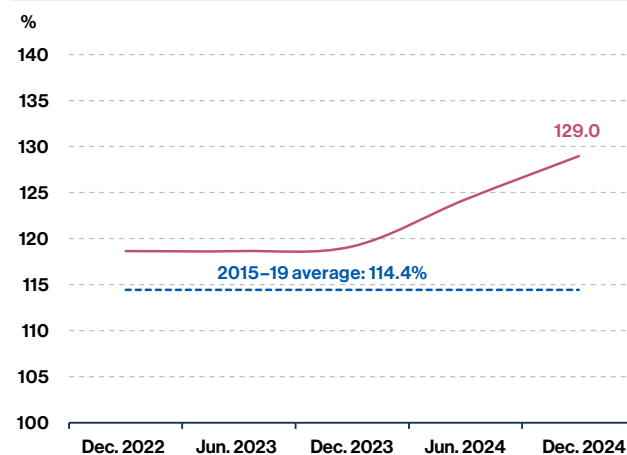
In the second half of 2024, the banking system loan loss coverage ratio (including regulatory reserves) increased to 129% from 124.3% seen in June 2024 (Chart 2.12). This reflects the increase in collective impairments held by banks on the back of continued robust loan growth in 2024. At the same time, banks maintained prudent provisions for higher-risk borrower segments amid uncertainties in the operating environment particularly from the impact of persistent cost challenges. While banks have been writing back pandemic-related management overlays⁷ (MO), this was offset at the aggregate level by MO allocated for specific borrowers.

Chart 2.11: Banking System – Stage 2 Loans Ratio



Source: Bank Negara Malaysia

Chart 2.12: Banking System – Loan Loss Coverage Ratio (Including Regulatory Reserves)

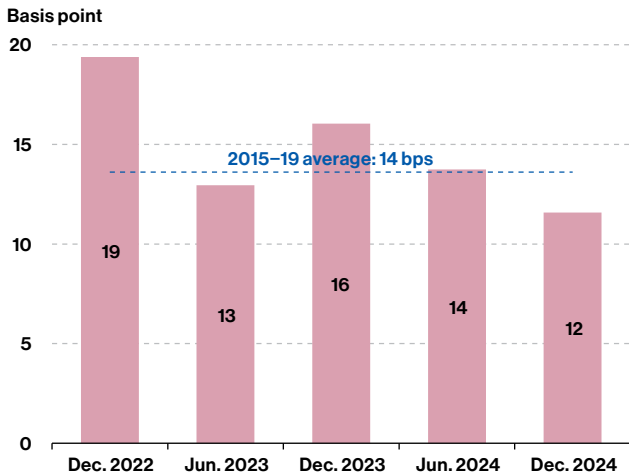


Source: Bank Negara Malaysia

⁷ Management overlays are additional provisions set aside on top of provisions derived from expected credit loss (ECL) models. They reflect adjustments to account for data deficiencies or uncertainties not adequately captured by the ECL models.

This has resulted in MO remaining stable at around 25% of banks' total ECL provisions for loans. These buffers are expected to be sufficient to absorb potential losses. The sustained level of provision has also led to stable annualised credit costs (Chart 2.13).

Chart 2.13: Banking System – Annualised Credit Cost Ratio



Source: Bank Negara Malaysia

Banks' earnings improved, supported by higher interest income

Banks' profitability in the second half of 2024 continued to be supported by interest income (Chart 2.14) amid robust overall loan growth. The higher interest income and a slower growth in interest expense contributed to the improvement of net interest margins (December 2024: 2%; June 2024: 1.96%; 2015-19 average: 2.11%). Meanwhile, the cost-to-income (CTI) ratio⁸ increased slightly to 47.9% (June 2024: 46.6%), mainly driven by an increase in employee expenses.

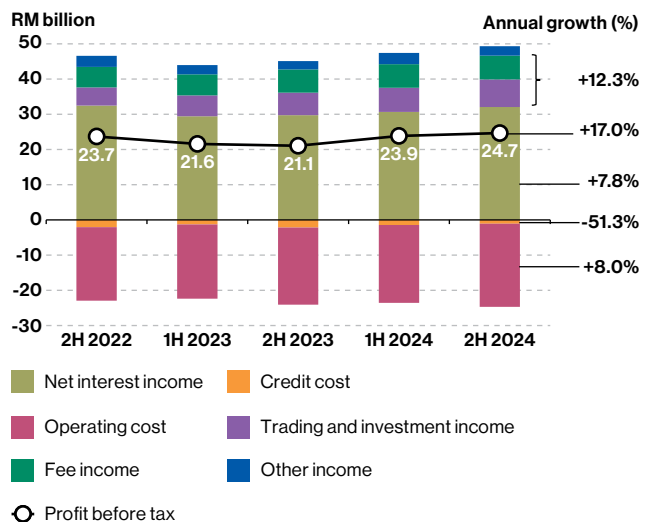
Trading and investment income (2H 2024: RM7.8 billion; 1H 2024: RM6.8 billion) provided additional support to banks' earnings. This was mainly driven by the substantial FX revaluation gains recorded in the third quarter of 2024 amid the strengthening of the ringgit. Despite the sizeable holdings of government bonds (10.1% of total banking system assets; June 2024: 10.6%), banks' exposure to interest rate risk in the banking book remained manageable.⁹ This has been supported by active strategies to reduce the duration of government bond holdings, especially in the last quarter

⁸ CTI ratio refers to the costs of running operations (i.e. operating costs), over banks' total income.
⁹ Interest rate risk in the banking book (IRRBB) reflects the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the banks' banking book positions. It is measured as a percentage of banks' capital (December 2024: 6.7%; June 2024: 6.7%).

of 2024 amid market expectations of high-for-longer interest rate in the US as well as uncertainties surrounding US trade policies from the new administration.

Consistent with higher earnings in the second half of 2024, returns on asset and equity of the banking system rose slightly to 1.4% and 12.2% respectively (June 2024: 1.3% and 12.1% respectively). This, in turn, supported the market valuations of listed banks, as measured by the price-to-book (P/B) and price-to-earnings (P/E) ratios (Chart 2.15). Looking ahead, the positive growth outlook for the economy will provide sustained support for banks' profitability.

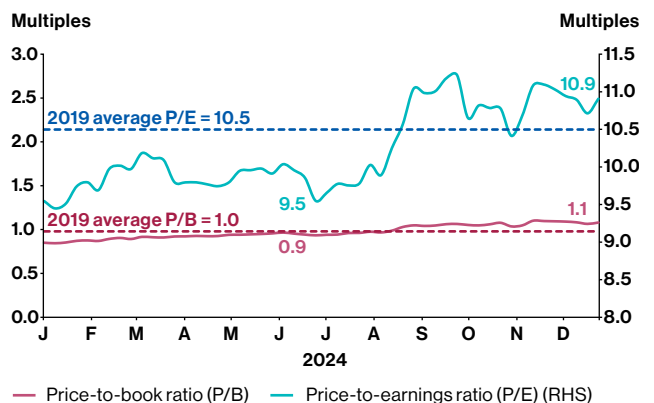
Chart 2.14: Banking System – Income, Cost and Profit before Tax



Note: 1. Annual growth computed based on figures for 2H 2023 and 2H 2024.
 2. Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Chart 2.15: Banking System – Price-to-Book and Price-to-Earnings Ratios of Publicly Listed Banks in Malaysia



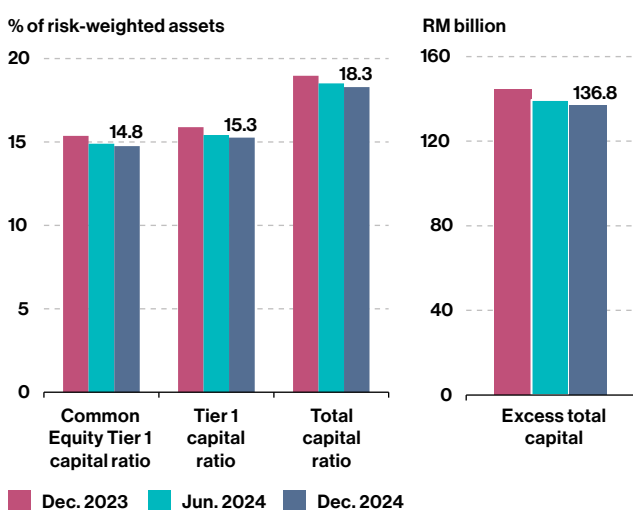
Note: Refers to the median ratio of domestic banking groups in Malaysia.

Source: Bloomberg

Banking system remained well-capitalised

The banking system total capital ratio remained healthy at 18.3% of total risk-weighted assets (June 2024: 18.5%), with capital buffers of RM136.8 billion (June 2024: RM139.5 billion) (Chart 2.16). These buffers continue to preserve banks' capacity to supply credit to the economy, as well as absorb unexpected losses. Banks' capital buffers were further supported by revaluation gains from bond holdings in the banking book, driven by a slight decline in domestic bond yields across all tenures between June to December 2024.

Chart 2.16: Banking System – Capitalisation



Note: Excess total capital refers to total capital above the regulatory minimum, which includes the capital conservation buffer requirement of 2.5% and bank-specific higher minimum requirements.

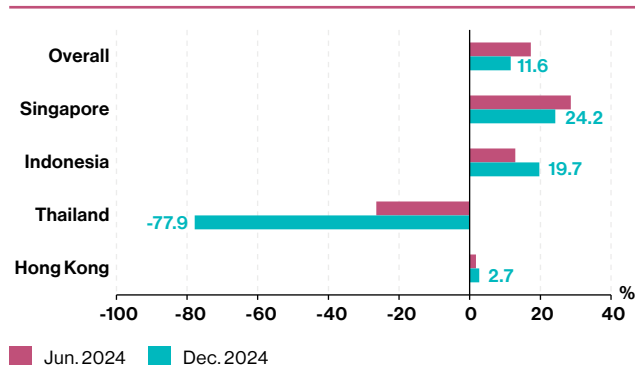
Source: Bank Negara Malaysia

Contagion risk from DBGs' overseas operations remained limited

Overall overseas operations¹⁰ of domestic banking groups (DBGs) remained profitable (Chart 2.17). This was mainly driven by operations in Singapore (representing 56% of overseas operations' assets) (Chart 2.18) which recorded sustained net interest and non-interest incomes. Operations in Thailand continued to record losses due to the high credit costs for selected non-retail borrowers amid ongoing economic headwinds. Notwithstanding this, spillover risks to parent banks in Malaysia remain limited, as total operations in Thailand contributed less than 2% of DBGs' total consolidated assets.

¹⁰ Overseas operations data from 2023 onwards shown in this publication may be different from data cited in earlier publications due to updated statistical reporting requirements and methodology.

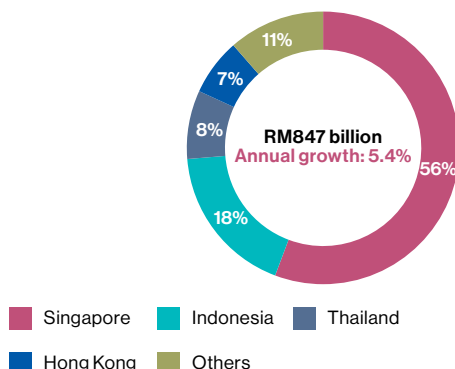
Chart 2.17: Banking System – Return on Equity of Overseas Operations by Jurisdiction



Note: 1. Overall average ROE is weighted by the asset size of selected overseas operations.
 2. Average ROE is weighted by the asset size of each domestic banking group's overseas operations in respective jurisdictions.
 3. The negative ROE for Thailand is a function of a small equity base associated with a small operation contributing only about 0.1% of DBGs' total consolidated assets.

Source: Bank Negara Malaysia

Chart 2.18: Banking System – Asset Profile of Major Overseas Operations

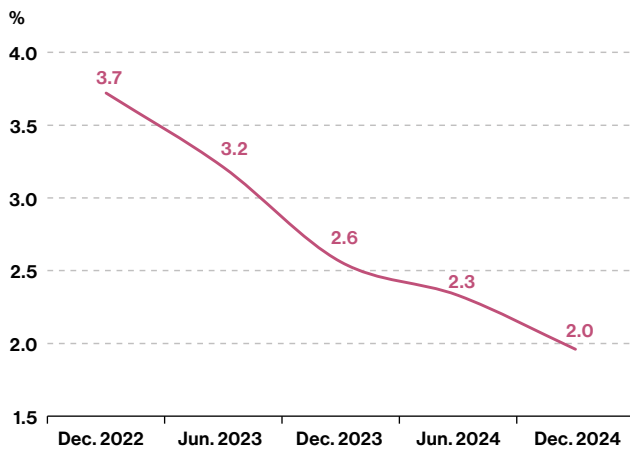


Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Similar to Malaysia, asset quality of overseas operations continued to improve (Chart 2.19). The share of loans under repayment assistance programmes continued to decline (0.8% of total overseas operations' loans; June 2024: 0.9%). Liquidity and funding risks posed by DBGs' overseas operations remained limited as major overseas operations continued to be primarily funded by stable customer deposits (Chart 2.20). DBGs' overseas operations also continue to be supported by strong capital buffers (average total capital ratio as at December 2024: 19.9%, June 2024: 20.6%).

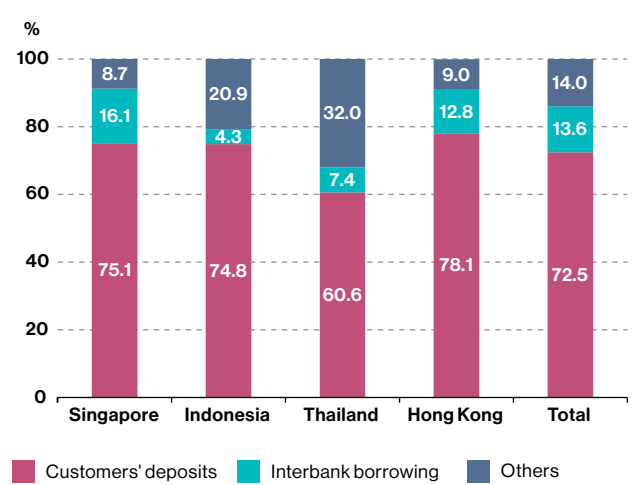
Chart 2.19: Banking System – Gross Impaired Loans Ratio of Overseas Operations



Note: The average gross impaired loans ratio is weighted by the asset size of selected overseas operations.

Source: Bank Negara Malaysia

Chart 2.20: Banking System – Funding Profile of Major Overseas Operations



Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia