

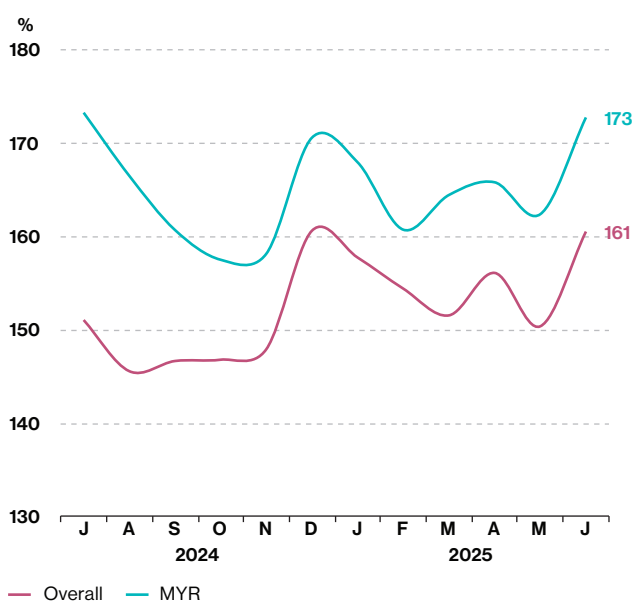
Financial Institution Soundness and Resilience

THE BANKING SECTOR

Banks' strong liquidity and funding positions continued to support financial intermediation

The banking system liquidity and funding conditions remained resilient. The aggregate Liquidity Coverage Ratio (LCR) (Chart 2.1) and Net Stable Funding Ratio (NSFR) (Chart 2.2) remained healthy and above the regulatory minima, at 160.5% and 115.7% respectively as at end-June 2025 (December 2024: 160.7% and 116.3%). In addition to cash and excess central bank reserves, banks maintained sizeable holdings of government bonds and sukuk, which can be pledged as collateral to obtain additional liquidity from the interbank market or BNM when needed.

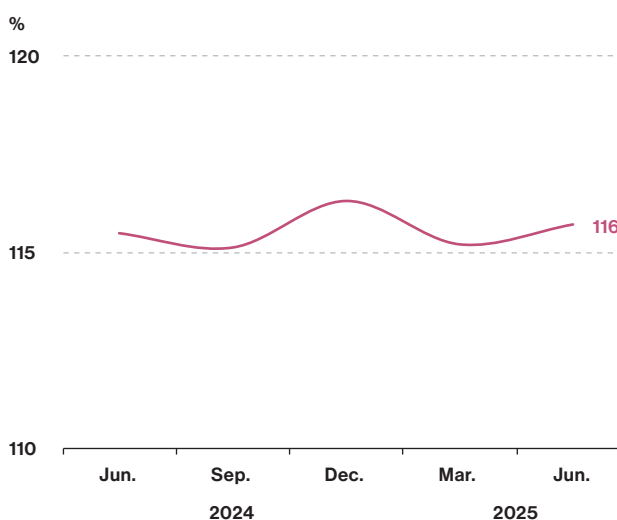
Chart 2.1: Banking System – Liquidity Coverage Ratio



Note: 1. MYR LCR is calculated based on high-quality liquid assets (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

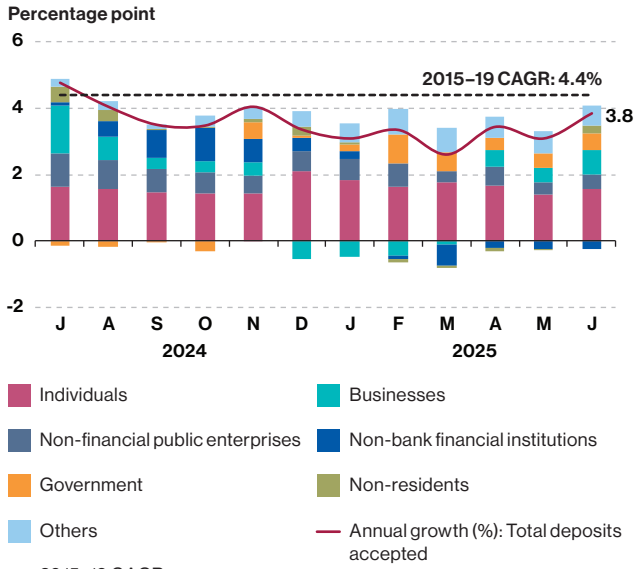


Source: Bank Negara Malaysia

As at June 2025, banking system deposits¹ accounted for 74.5% (December 2024: 75%) of total liabilities and expanded by 3.8% (December 2024: 3.3%) year-on-year (Chart 2.3). This was supported by sustained growth in deposits from resident individuals and businesses (including non-financial public enterprises). These segments collectively accounted for 73.1% (December 2024: 73%) of total deposits, while non-bank financial institutions (NBFIs) and the government were the next largest contributors at 8.9% and 7.2% respectively (December 2024: 9.7% and 6.7%). Deposits from resident individuals and businesses remained a key source of stable funding for banks, particularly as deposits from NBFIs declined in the first half of 2025 amid increased investment activities abroad. Fixed deposits (including Commodity Murabahah) continued to underpin the stability of banks' funding structure, accounting for over half of total banking system deposits (51.4%, December 2024: 51.3%; 2015–19 average: 47.9%) (Chart 2.4).

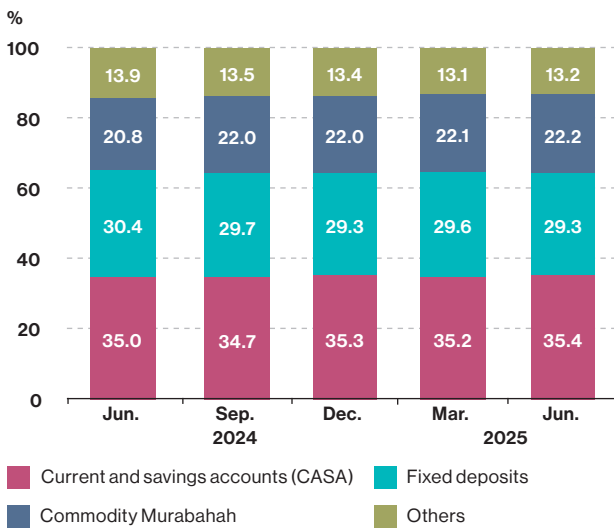
¹ Banking system deposits refer to deposits from resident individuals, businesses, NBFIs, the government, banking institutions and non-residents. Beginning from BNM's Financial Stability Review for First Half 2025, banking system deposits exclude repurchase agreements and thus, may not be directly comparable to data reported in previous publications.

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



Source: Bank Negara Malaysia

Chart 2.4: Banking System – Composition of Deposits Accepted by Type

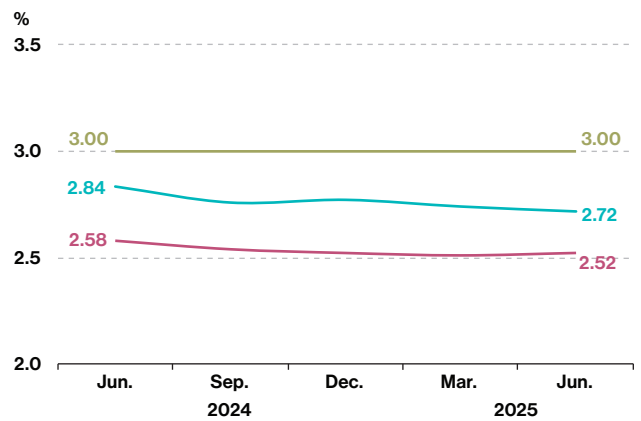


Source: Bank Negara Malaysia

Despite ongoing uncertainties in global markets, domestic funding conditions remained manageable, supported by the additional liquidity released into the banking system following BNM’s decision to reduce the Statutory Reserve Requirement (SRR) ratio by 100 basis points (bps). This decision, along with expectations of policy rate cuts at the time, has contributed to an easing

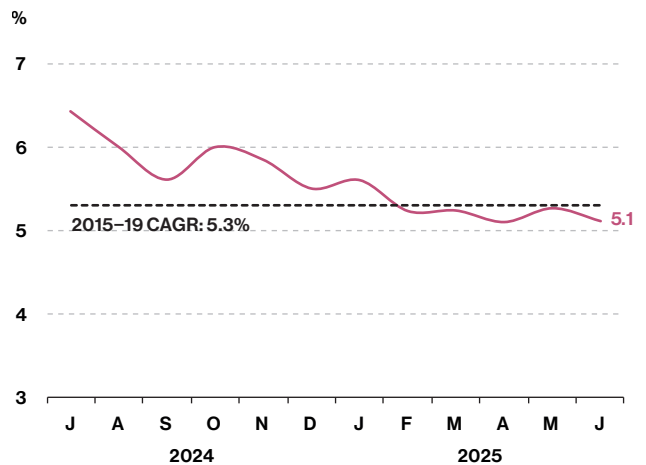
in interbank rates, with the 3-month interbank rate falling by 25 bps between December 2024 and June 2025. This has helped reduce banks’ funding costs, as reflected in the moderation of the weighted average cost of funds to 2.72% as at June 2025 (December 2024: 2.77%) (Chart 2.5). Meanwhile, the weighted average cost of deposits remained stable at 2.52% (December 2024: 2.52%), as the impact of lower retail fixed deposit board rates was offset by elevated corporate deposit rates. Consistent with the easing funding costs, banks’ lending activity remained healthy, with loan growth stable at 5.1% (December 2024: 5.5%) (Chart 2.6).

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



Source: Bank Negara Malaysia

Chart 2.6: Banking System – Annual Loan Growth

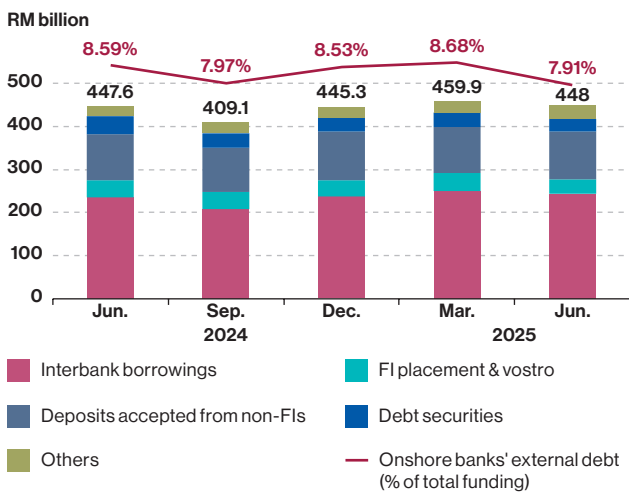


Source: Bank Negara Malaysia

Risks from banks' external debt remained manageable

Banks' external debt remained broadly stable in the first half of 2025, increasing marginally by RM2.6 billion to RM448 billion (December 2024: RM445.3 billion) (Chart 2.7). This was mainly driven by higher interbank borrowings of RM17.1 billion, recorded by banks operating in the Labuan International Business and Financial Centre (LIBFC) that are engaged in out-out² activities with related counterparties. The increase was partially offset by foreign exchange (FX) revaluation gains following the appreciation of the ringgit against USD in the second quarter, which reduced the ringgit value of external debt by RM14.5 billion.

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

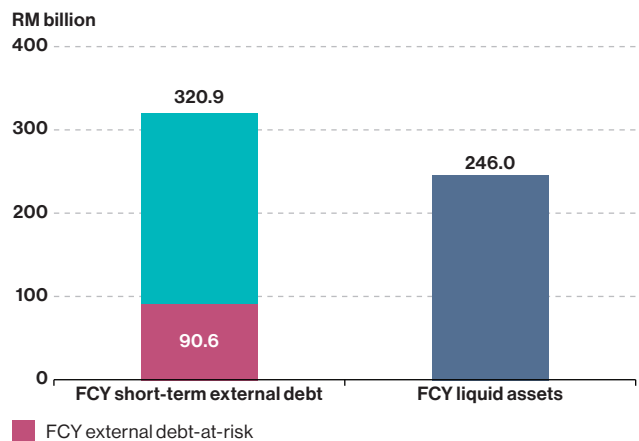
Funding and liquidity risks associated with banks' external debt remained contained. As at June 2025, funds sourced from non-resident counterparties accounted for only 7.9% of total banking system funding, underscoring the limited reliance on external sources to meet domestic funding needs. The bulk of banks' external debt continued to be concentrated among related counterparties or comprised long-term, stable debt instruments, representing 78.8% of total external debt (December 2024: 76.9%). Onshore banks' holdings of foreign currency (FCY) high-quality liquid assets (HQLA) remained sufficient to cover up

² 'Out-out' refers to the placement of externally sourced funds with external counterparties.

to 2.7 times the portion of external FCY funds most susceptible to sudden withdrawal shocks, or FCY debt-at-risk³ (June 2025: RM90.6 billion; December 2024: RM100 billion) (Chart 2.8).

Banks continued to manage FX risks prudently. Direct exposures to FX risk, as measured by the FX net open position (FX NOP) of banks (Chart 2.9), remained moderate at 4.3% of total capital (December 2024: 3.8%, 2020–22 average: 4.2%). Moving forward, banks' external debt is expected to remain broadly stable, supported by sufficient domestic liquidity.

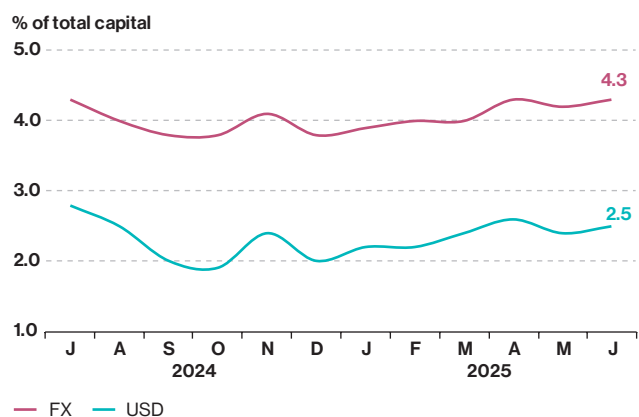
Chart 2.8: Banking System – FCY External Debt-at-Risk and Liquid Assets



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

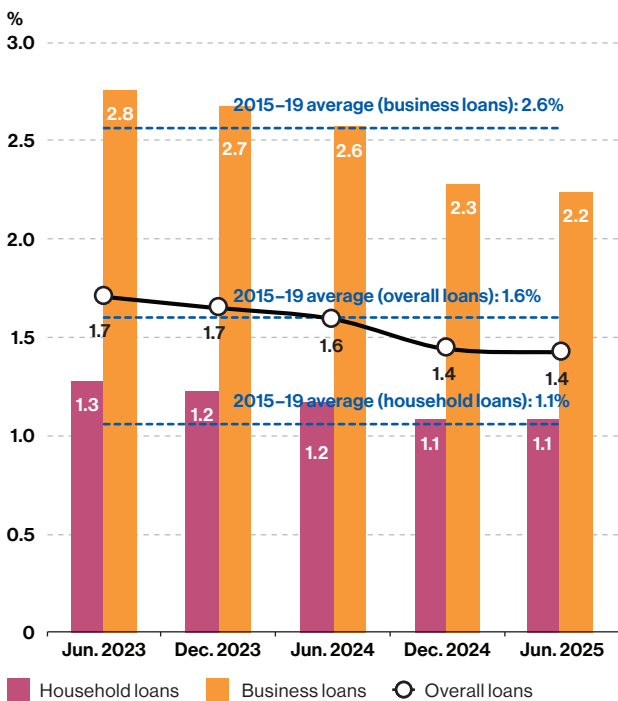
³ Banks' external debt-at-risk comprises financial institutions' deposits, interbank borrowings and short-term loans from unrelated non-resident counterparties, which are considered more susceptible to sudden withdrawal shocks.

Banking system asset quality remained sound

Banking system asset quality continued to be sound. Despite ongoing repayment challenges among a small segment of small and medium enterprise (SME) borrowers, the banking system gross impaired loans ratio remained stable at 1.4% in the first half of 2025 (December 2024: 1.4%) (Chart 2.10), supported by sustained loan growth. Similarly, the share of loans classified as Stage 2 also remained stable at 6.6% of total banking system loans (December 2024: 6.6%; 2018–19 average: 7.6%) (Chart 2.11). Consistent with these trends, loans under repayment assistance programmes remained a small share of total banking system loans at 1.5% (December 2024: 1.7%), while newly rescheduled and restructured loans continued to remain small at 0.07% (December 2024: 0.09%).

Despite the significant improvement recorded in asset quality relative to the pre-pandemic period, banks have maintained a prudent approach to provisioning. The

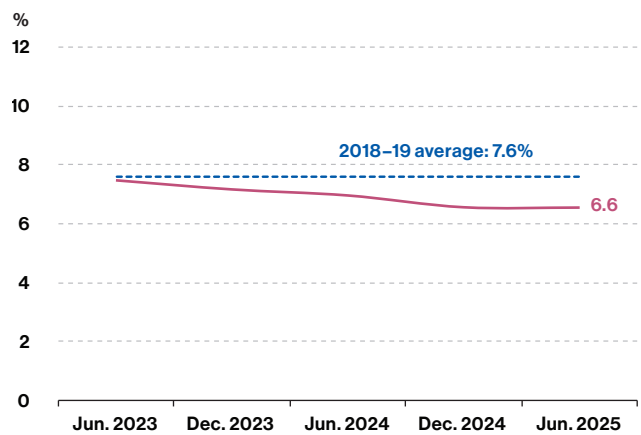
Chart 2.10: Banking System – Gross Impaired Loans Ratio



Source: Bank Negara Malaysia

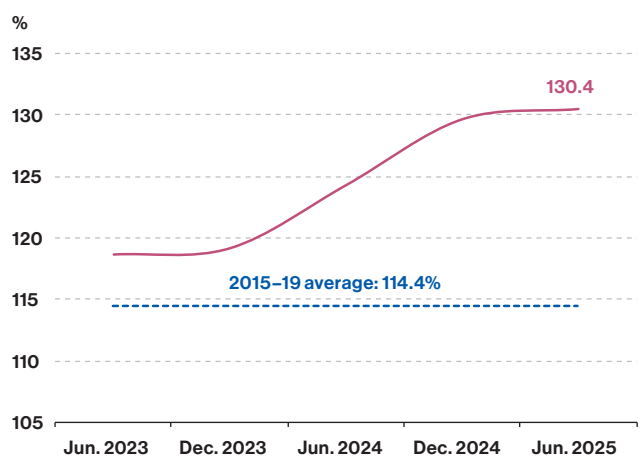
banking system loan loss coverage ratio (including regulatory reserves) remained high at 130.4% (December 2024: 129.6%) (Chart 2.12), reflecting banks' continued conservatism in managing credit risks particularly among borrowers in higher-risk segments that face ongoing cost challenges. Notably, management overlays⁴ applied and accumulated since the pandemic have continued to decline. As at June 2025, management overlays stood at 23% of expected credit loss (ECL) provisions for loans (December 2024: 25%). With prudent provisioning practices still in place, annualised credit costs remained broadly stable (Chart 2.13).

Chart 2.11: Banking System – Stage 2 Loans Ratio



Source: Bank Negara Malaysia

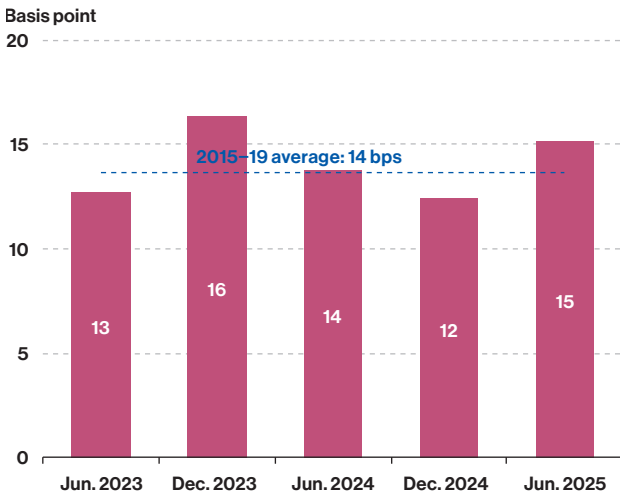
Chart 2.12: Banking System – Loan Loss Coverage Ratio (Including Regulatory Reserves)



Source: Bank Negara Malaysia

⁴ Management overlays are additional provisions set aside on top of provisions derived from ECL models. It reflects adjustments to account for data deficiencies or uncertainties not adequately captured by the ECL models.

Chart 2.13: Banking System – Annualised Credit Cost Ratio



Source: Bank Negara Malaysia

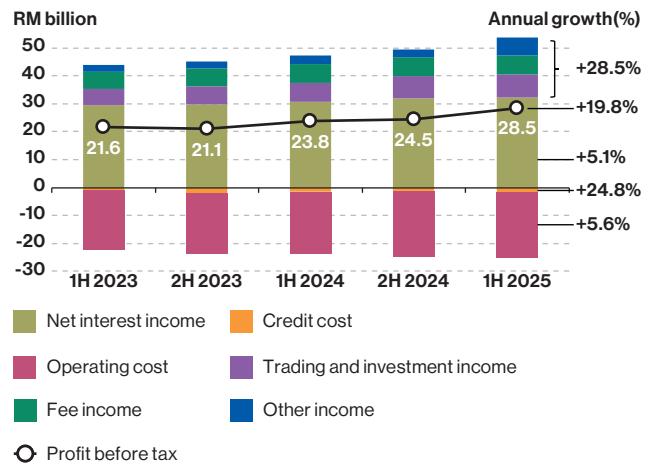
Banks’ earnings remained healthy, underpinned by sustained interest income

Banks’ profitability continued to be supported by interest income in the first half of 2025 (Chart 2.14). Net interest margins (NIM) stabilised to 2.01% as at June 2025 (December 2024: 2%; 2015–19 average: 2.11%) amid higher interest income on loans. Trading and investment income also provided additional support to banks’ profitability, rising to RM8.3 billion in the first half of 2025 (2H 2024: RM7.7 billion), primarily driven by sizeable FX revaluation gains amid the strengthening of the ringgit. Despite the sizeable holdings of government bonds (10.4% of total banking system assets; December 2024: 10.1%), banks’ exposure to interest rate risk in the banking book (IRRBB)⁵ remained manageable.

Consistent with stronger earnings, returns on asset and equity of the banking system rose to 1.5% and 13.8% respectively (December 2024: 1.3% and 12.1%).⁶ However, market valuations of listed banks, as reflected by the price-to-book (P/B) and price-to-earnings (P/E) ratios, have moderated slightly, in line with the broader trend in the domestic equity market (Chart 2.15). Looking ahead, banks’ net interest margins may face temporary downward pressure, as the decline in lending rates is expected to outpace the reduction in funding costs following the OPR cut in July 2025. The high share of

floating-rate loans in banks’ portfolios is likely to result in a relatively quicker reduction in effective lending rates, while the significant proportion of long-term fixed deposits could lead to a slower adjustment in deposit and funding costs until these liabilities are refinanced or rolled over.

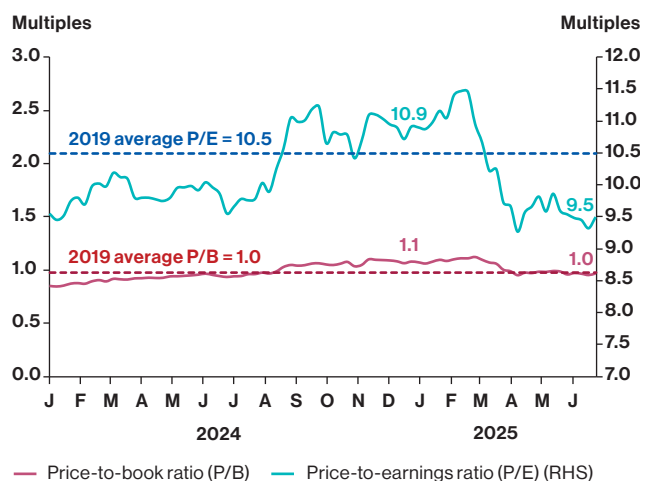
Chart 2.14: Banking System – Income, Cost and Profit before Tax



Note: 1. Annual growth computed based on figures for 1H 2024 and 1H 2025.
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

⁵ IRRBB reflects the current or prospective risk to banks’ capital and earnings arising from adverse movements in interest rates that affect banks’ banking book positions. It is measured as a percentage of banks’ capital (June 2025: 6.4%; December 2024: 6.4%).

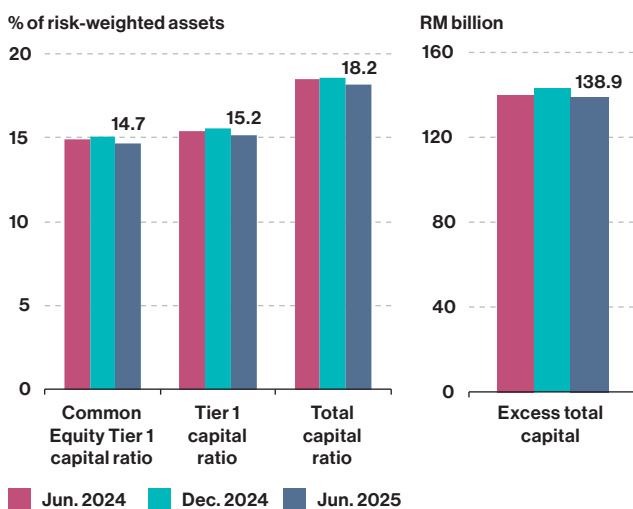
⁶ Return on asset and return on equity (ROE) are calculated using profit before tax. Based on profit after tax, ROE stood at 10.8% (December 2024: 9.3%).

Banking system remained well-capitalised

The banking system total capital ratio remained stable at 18.2% of total risk-weighted assets (December 2024: 18.6%), with capital buffers amounting to RM138.9 billion (December 2024: RM143.1 billion) (Chart 2.16). These strong buffers continue to preserve banks' capacity to support credit intermediation and absorb unexpected losses. Banks' capital positions were further bolstered by revaluation gains from bond holdings in the banking book, driven by a decline in domestic bond yields across all tenures between January and June 2025. The potential impact of US tariffs on banks is expected to be well within the range of outcomes considered in BNM's most recent stress test exercise,⁷ underscoring the resilience of banks' capital positions under adverse scenarios.

BNM's latest assessment of domestic systemically important banks (D-SIBs) based on data as at end-2024 indicated that the list of banking groups designated as D-SIBs and their respective higher loss absorbency (HLA) requirements to reflect their systemic importance remained unchanged (Table 2.1). All D-SIBs continued to maintain Common Equity Tier 1 (CET-1) capital comfortably above the regulatory minimum, inclusive of HLA requirements.

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

Table 2.1: D-SIBs HLA Requirement

D-SIBs	HLA Requirement (% of risk-weighted assets)
Malayan Banking Berhad	1.0
CIMB Group Holdings Berhad	1.0
Public Bank Berhad	0.5

Source: Bank Negara Malaysia

Contagion risk from DBGs' overseas operations continues to be limited

The profitability of overseas operations of domestic banking groups (DBGs) improved in the first half of 2025 (Chart 2.17). This was mainly driven by operations in Singapore (accounting for 57% of overseas operations' assets) (Chart 2.18) on the back of higher fee income. Operations in Hong Kong also recorded higher profits, supported by significant marked-to-market (MTM) gains on securities, especially in the first quarter of 2025 following gradual policy rate easing since third quarter of 2024.⁸ In contrast, operations in Thailand continued to register losses due to high credit costs arising from challenges in managing elevated impairments among SME and commercial borrowers.

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



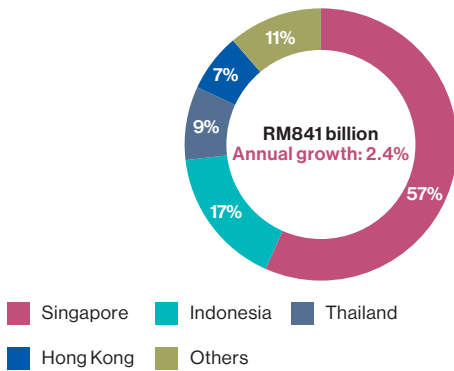
Note: 1. Overall average ROE is weighted by the asset size of selected overseas operations.
 2. Average ROE is weighted by the asset size of each domestic banking group's overseas operations in respective jurisdictions.
 3. The negative ROE for Thailand is a function of a small equity base associated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

Source: Bank Negara Malaysia

⁷ Refer to the section on 'Assessing the Resilience of Financial Institutions' in BNM's Financial Stability Review for Second Half 2024 for further details on the stress test exercise.

⁸ In September 2024, the Hong Kong policy rate was reduced for the first time since the COVID-19 pandemic, by 50 bps to 5.25%. It was subsequently reduced further to 5.00% in November and 4.75% in December 2024.

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

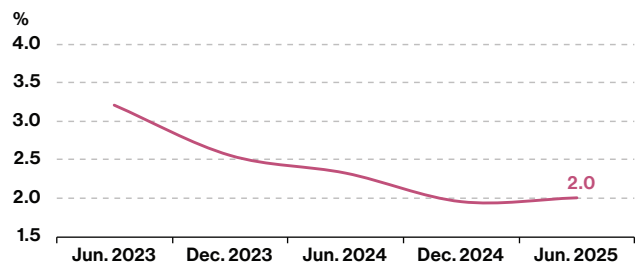


Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Similar to Malaysia, the overall asset quality of DBGs' overseas operations remained stable (Chart 2.19) compared to the previous publication. However, operations in Hong Kong recorded a higher gross impaired loans ratio, attributed to cashflow pressures faced by corporates and SMEs amid adverse business conditions. Liquidity and funding risks posed by overseas operations remained limited, as major overseas operations continued to be primarily funded by stable customer deposits (Chart 2.20). DBGs' overseas operations also continued to be supported by strong capital buffers (average total capital ratio as of June 2025: 18.6%; December 2024: 19.9%).

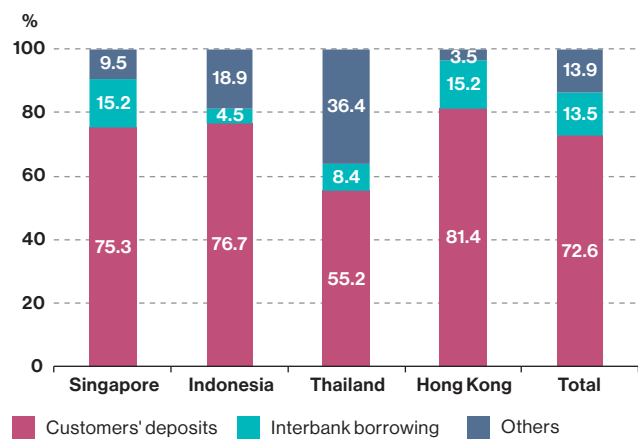
Chart 2.19: Banking System – Gross Impaired Loans Ratio of Overseas Operations



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