

CREDIT RISK

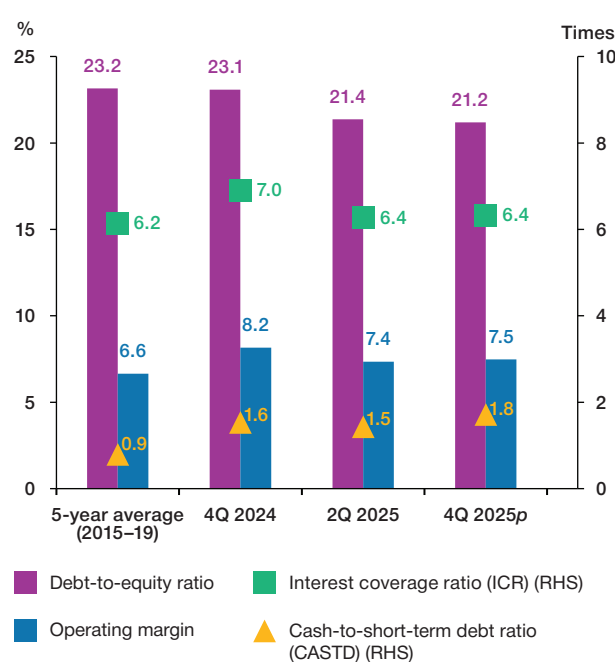
Businesses remained resilient amid the challenging external environment

Business activities remained resilient in the second half of 2025, with revenue gains amid the challenging external environment. Within the export-oriented sector, firms in the electrical and electronics (E&E) and related subsectors continued to benefit from rising global demand for artificial intelligence (AI). However, this was weighed down by the softer performance of non-E&E subsectors amid global excess capacity and foreign competition. While the strengthening ringgit during the period exerted some pressure on exporters' margins, it also partially mitigated cost pressures by lowering the cost of imported inputs. This, along with risk management strategies such as hedging, helped sustain the overall performance of exporters. Meanwhile, the performance of domestic-oriented manufacturing firms remained anchored by resilient domestic demand, particularly in the food, beverages and tobacco, as well as building materials subsectors. In the construction sector, activity was underpinned by continued growth in industrial and housing projects, ongoing progress in multi-year infrastructure projects and new project developments, including the construction of data centres. Meanwhile, the services sector registered sustained growth in consumer-related businesses, supported by favourable labour market conditions and increased tourism activity.

Firms continued to face elevated cost pressures in the second half of 2025 amid higher labour, utility, logistics and compliance costs. These pressures were partly mitigated by the stronger ringgit and lower input prices, amid easing prices for selected commodities such as steel, crude oil and natural gas. As a result, aggregate input costs for overall businesses,² as measured by the median cost of goods sold (COGS) ratio³ remained elevated (December 2025: 76.1%; June 2025: 74.6%; December 2024: 74.8%). Insights from BNM's engagements with businesses revealed that most firms addressed rising cost pressures

through various cost containment measures, including tighter inventory management, supplier renegotiations and greater adoption of automation to enhance efficiency. Overall, these efforts supported business profitability and debt-servicing capacity, even though some firms had to carefully manage cost pass-through to customers to maintain price competitiveness. The median operating margin for the overall business sector improved marginally to 7.5% (June 2025: 7.4%), while the interest coverage ratio (ICR) remained stable at 6.4 times (June 2025: 6.4 times) (Chart 1.4). Correspondingly, the share of firms-at-risk⁴ also improved to 23.7% (June 2025: 25.9%) (Chart 1.5). While overall business sector financials saw marginal improvements, the extent of profitability improvements and cost pressures varied across firms. Larger firms generally reported improving operating margins, while smaller firms showed signs of margin compression, reflecting their limited ability to absorb or mitigate rising costs given their relatively smaller scale, weaker bargaining and pricing power, as well as lower business diversification (Chart 1.6 and Chart 1.7).

Chart 1.4: Business Sector – Key Financial Performance Indicators



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Note: Prudent thresholds for ICR and CASTD are two times and one time respectively.

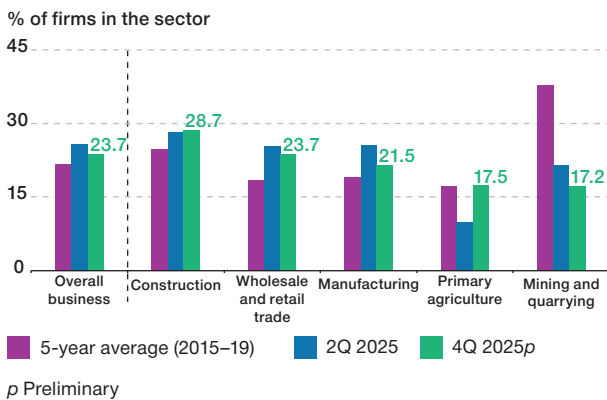
Source: S&P Capital IQ and Bank Negara Malaysia estimates

² All financial performance data cited in this section are based on reporting by listed firms in Malaysia.

³ COGS ratio is calculated by dividing a firm's COGS by its revenue. A higher ratio indicates that COGS makes up a higher proportion of revenue.

⁴ Firms-at-risk refers to firms with ICR below the prudent threshold of two times.

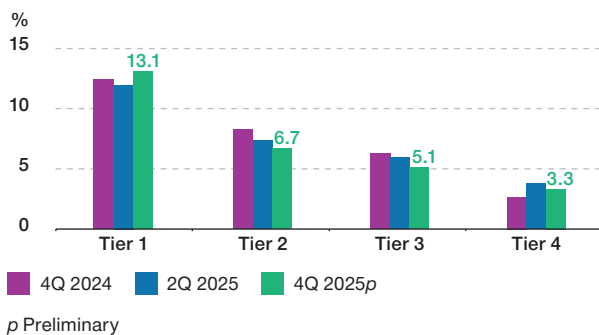
Chart 1.5: Business Sector – Firms-at-risk for Selected Sectors



Note: Sectors shown in the chart collectively account for over 50% of total financial institution exposures to the business sector as of 4Q 2025. Financial institutions' exposures refer to loans extended by onshore banks and holdings of domestic bonds.

Source: S&P Capital IQ and Bank Negara Malaysia estimates

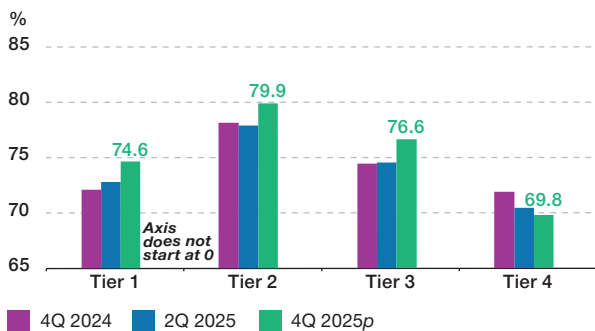
Chart 1.6: Business Sector – Operating Margin by Firm Size



Note: Listed firms are grouped into four size tiers based on total assets as at end 4Q 2025: Tier 1 (assets equal or above RM1.1 billion), Tier 2 (assets between RM0.4 billion and RM1.1 billion), Tier 3 (assets between RM0.15 billion and RM0.4 billion) and Tier 4 (assets below RM0.15 billion).

Source: S&P Capital IQ and Bank Negara Malaysia estimates

Chart 1.7: Business Sector – Cost of Goods Sold Ratio by Firm Size

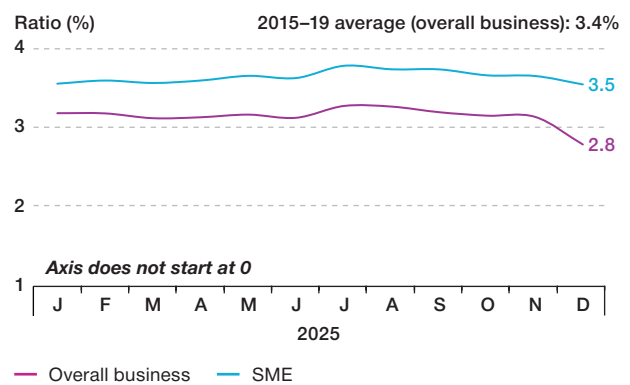


Note: Listed firms are grouped into four size tiers based on total assets as at end 4Q 2025: Tier 1 (assets equal or above RM1.1 billion), Tier 2 (assets between RM0.4 billion and RM1.1 billion), Tier 3 (assets between RM0.15 billion and RM0.4 billion) and Tier 4 (assets below RM0.15 billion).

Source: S&P Capital IQ and Bank Negara Malaysia estimates

The overall credit quality of business borrowings improved with no notable divergence in trends across segments and sectors. The shares of impaired loans and loans with increased credit risk (Stage 2 loans) for overall businesses improved to 2.8% and 10.7% respectively (June 2025: 3.1% and 11.9%) (Chart 1.8). Within the small and medium enterprise (SME) segment, a small segment of borrowers, especially micro and small firms in the wholesale and retail trade, agriculture, construction, and food and beverage sectors continued to exhibit signs of repayment stress. BNM's engagements with banks and businesses suggest that these firms typically face longstanding business challenges, including tightening cash flows and compressed profit margins due to delayed client payments, heightened competition and elevated operational costs. Despite these challenges, the majority of SME borrowers generally continued to adapt to prevailing business conditions and remained able to service their financial obligations. The share of delinquent⁵ SME loans increased marginally to 1.5% (June 2025: 1.3%), while impaired SME loans was broadly steady at 3.5% (June 2025: 3.6%). Consistent with the observation that repayment stress is confined to a small segment of SME borrowers, the share of SME borrowings under repayment assistance from banks and the Credit Counselling and Debt Management Agency (AKPK) edged down to 3.8% of total SME loans (June 2025: 4.1%), or 0.6% of total banking system and development financial institution (DFI) loans, with no notable shifts in the profile of SME borrowers seeking assistance.

Chart 1.8: Business Sector – Gross Impaired Loans



Note: Data refers to banking system and development financial institution (DFI) loans.

Source: Bank Negara Malaysia

⁵ This refers to loan accounts with one or two months in arrears.

Financing conditions remained supportive of business needs, with credit to businesses⁶ growing at an annual rate of 5.1% as at December 2025 (June 2025: 4.4%). Businesses, particularly larger corporates, continued to utilise a diverse range of funding sources, including financing from the domestic corporate bond market and external borrowings (refer to the 'Monetary Policy and Domestic Financing Conditions' section of BNM's Economic and Monetary Review 2025 for further details on business financing conditions). In the domestic corporate bond market, credit quality of issuances remained strong (refer to the section on Market Risk), with no issuance downgraded in the second half of 2025 (1H 2025: one issuance). The profile of corporate external borrowings (December 2025: RM618.7 billion; June 2025: RM628.2 billion) remained largely unchanged, limiting vulnerabilities arising from external obligations. Around 60% of these exposures comprise intercompany loans and trade credit arrangements among export-oriented firms with low credit risk. Intercompany loans typically carry flexible repayment structures and concessionary terms, while repayments of trade credits are typically aligned with export proceeds. Refinancing risks remained contained, supported by the predominance of longer-term borrowings, with about 70% of corporate external borrowings having maturities exceeding one year. Most foreign currency denominated external borrowings owed by large resident corporates continued to be either naturally or financially hedged, thereby mitigating currency mismatch risks.

Moving forward, the business sector outlook is expected to be anchored by resilient domestic demand and investment activities,

sustained external demand for E&E goods, as well as steady tourism activity following the Visit Malaysia Year 2026 campaign, notwithstanding some travel disruptions from the ongoing geopolitical conflict in the Middle East. Businesses may continue facing lingering cost pressures, including from greater volatility in global commodity prices given the Middle East conflict. Larger businesses are generally expected to remain better positioned to navigate operating challenges, supported by relatively stronger financial position and greater bargaining capacity. For smaller businesses, the Government's support measures⁷ to exempt and defer eligible small businesses from selected tax and compliance requirements are expected to help alleviate cost and administrative burdens. Downside risks to business resilience stem mainly from a weaker global growth outlook that could weigh on external demand, potential intensification of trade and supply chain challenges amid ongoing geopolitical tensions and trade tariffs, and more moderate domestic demand conditions. Notwithstanding, stress tests conducted by BNM affirm that banks maintain sufficient capital buffers to withstand potential increases in credit losses from the business sector under adverse stress scenarios (refer to the section on 'Assessing the Resilience of Financial Institutions' for further details). Debt resolution mechanisms, such as the Small Debt Resolution Scheme (SDRS), and court-sanctioned corporate rescue frameworks, also remain in place to offer restructuring avenues for distressed but viable firms.

⁶ This comprises outstanding loans to businesses and outstanding corporate bonds.

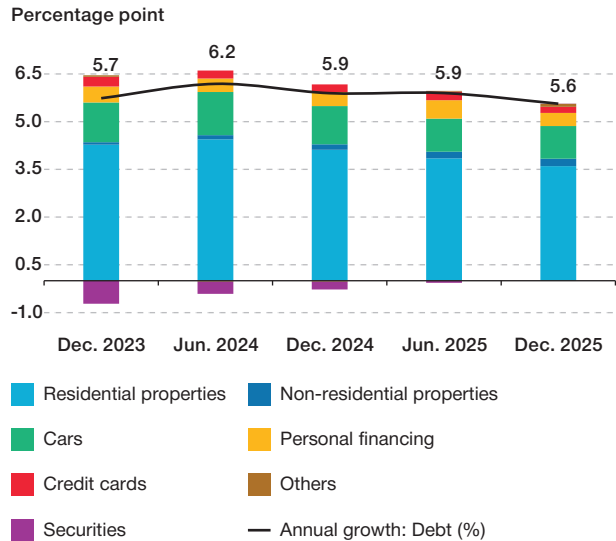
⁷ This refers to measures announced in the YAB Prime Minister's 2026 New Year Address, which include reduced service tax rate on rental along with a higher revenue threshold to be eligible for exemption, and deferred e-invoicing compliance requirements.

Overall quality of household borrowings remained sound, supported by positive labour market conditions

As at end-December 2025, household debt expanded at an annualised pace of 5.6% (Chart 1.9), consistent with the average growth observed during the pre-pandemic period (2015–19 average: 5.6%), but slightly lower than the 5.9% recorded in June 2025. Household debt growth remained primarily driven by housing and car loans, although the contribution of housing loans to annualised growth moderated slightly to 3.6 percentage points (ppt) as at end-December 2025 (June 2025: 3.8 ppt). Despite steady transaction volumes, housing loan growth eased in the second half of 2025 amid more moderate house price growth (see Information Box on ‘Developments in the Property Market’). Car financing growth stabilised in the second half of 2025 (December 2025: 7.5%) after moderating in the first half of the year (June 2025: 7.7%; December 2024: 9.1%), supported in part by front-loaded demand for completely built-up electric vehicles (CBU EV) ahead of the expiry of the CBU EV tax holiday in December 2025. Meanwhile, growth in consumption-driven credit continued to soften. Outstanding credit card debt and personal financing loans grew at a slower annualised pace of 6.3% and 3.3% respectively as at end-December 2025 (June 2025: 9.2% and 4.7%). Their contribution to overall household debt growth declined further, with their combined share of total household debt easing to 15.1% (June 2025: 15.2%; December 2019: 16.8%) (Chart 1.10). Furthermore, the share of credit card revolving balances,⁸ which provides a signal of possible cashflow pressures faced by borrowers,⁹ eased slightly to 48% (June 2025: 48.9%; 2015–19 average: 60.6%), indicating households are increasingly paying their credit card balances in full.

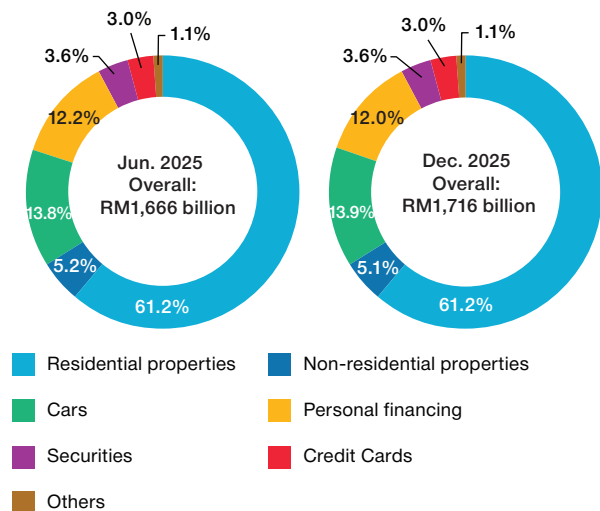
After rising in the first half of the year, the household debt-to-GDP ratio stabilised at 84.8% (June 2025: 84.8%; December 2024: 84.1%), reflecting a strong nominal GDP performance coupled with more moderate household debt growth (Chart 1.11). Given the relative stability of household debt growth in recent periods, movements in this ratio have been driven mainly by nominal GDP, reinforcing the importance of micro-level indicators in assessing households’ debt-servicing capacity. These indicators remain

Chart 1.9: Household Sector – Annual Growth of Debt



Source: Bank Negara Malaysia

Chart 1.10: Household Sector – Composition of Debt by Purpose



Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

sound. Borrowers’ debt growth continues to be supported by growth in incomes, as shown by the stable median debt-to-income ratio of 1.3 times (June 2025: 1.4 times). The median debt service ratio (DSR) of outstanding household loans also remained steady at 33% (June 2025: 33%) (Chart 1.12), indicating households’ continued ability to meet loan repayment and expenditure commitments. Lending to household borrowers deemed riskier¹⁰ remained limited, with their share of new loan approvals decreasing to 7.9%

⁸ Refers to credit card outstanding balances that remain unpaid by the due date and are carried forward to the next billing cycle.

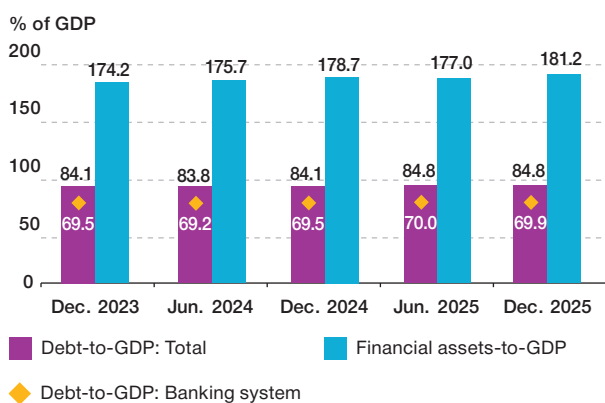
⁹ Refer to the ‘Credit Risk – Household’ section in BNM’s Financial Stability Review for First Half 2025 for more information.

¹⁰ Refers to borrowers with high DSR (exceeding 60%) and low monthly net disposable income (below RM1,000).

KEY DEVELOPMENTS IN THE SECOND HALF OF 2025

(June 2025: 8.3%). The share of outstanding household debt held by these riskier borrowers also declined (8.9%; June 2025: 9.1%). Collectively, the soundness of these indicators underscores prudent underwriting and affordability assessments by banks, complemented by responsible debt management practices among borrowers.

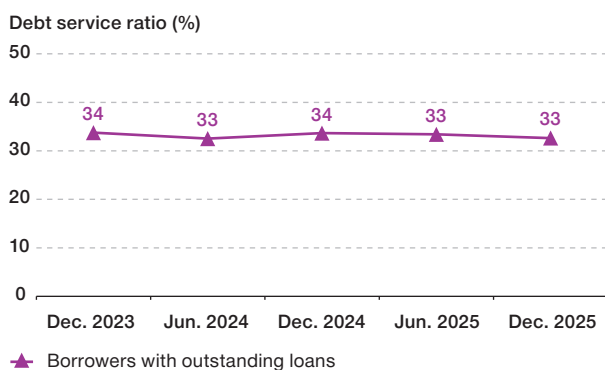
Chart 1.11: Household Sector – Key Ratios



Note: Data for the 'Total' debt series covers banking system, development financial institution (DFI) and selected non-bank financial institution (NBFI) loans.

Source: Bank Negara Malaysia, Bursa Malaysia, Department of Statistics, Malaysia, Employees Provident Fund and Securities Commission Malaysia

Chart 1.12: Household Sector – Median Debt Service Ratio of Borrowers with Outstanding Loans



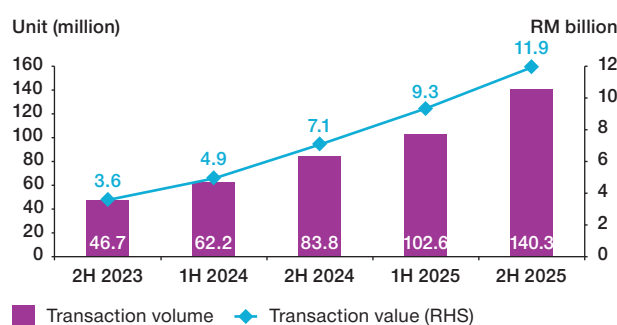
Source: Bank Negara Malaysia

The continued expansion of buy now pay later (BNPL)¹¹ schemes remain a key area of surveillance for BNM. In the second half of 2025, the total volume and value of BNPL transactions increased to 140.3 million transactions and RM11.9 billion respectively (1H 2025: 102.6 million transactions and RM9.3 billion) (Chart 1.13). Correspondingly, total outstanding BNPL debt increased to RM4.9 billion as at end-December 2025 (June 2025: RM3.8 billion). Growth continues to be primarily driven by a

¹¹ All BNPL figures refer to transactions made by users of non-bank BNPL providers only.

sharp rise in active¹² BNPL users, with active accounts reaching 7.5 million (June 2025: 6.5 million). The share of overdue¹³ BNPL debt was stable at 3.2% of total outstanding BNPL debt (June 2025: 3.2%), remaining below levels observed during the early stages of the segment's emergence (March 2023: 6%). Furthermore, the definition of overdue as one or more days past due reflects a prudent and conservative monitoring stance. While outstanding BNPL debt stands at only 0.3% of total household debt (June 2025: 0.2%), the segment's rapid growth warrants continued close monitoring. In this regard, the establishment of the Consumer Credit Commission will bring previously unregulated non-bank credit providers and credit service providers, including BNPL providers, under a formal regulatory and supervisory framework. This is expected to strengthen existing consumer protection and oversight efforts.

Chart 1.13: Household Sector – BNPL Transaction Volume and Value



Note: Data refers to BNPL transactions with non-bank providers.

Source: Consumer Credit Commission

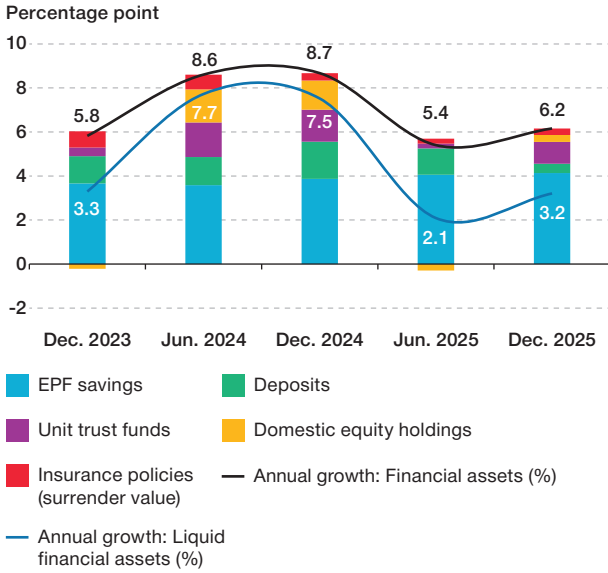
Household financial assets expanded at an annualised pace of 6.2% as at end-December 2025 (June 2025: 5.4%) (Chart 1.14). This growth continues to be primarily driven by households' savings in the Employees Provident Fund (EPF), which contributed 4.1 ppt to the annual growth in household financial assets (June 2025: 4.1 ppt). Collectively, savings held in the EPF and deposits accounted for 68% of total financial assets (June 2025: 68.4%). Despite a softer expansion in household deposit growth, overall household financial asset growth remained strong, supported by improved valuations of domestic equity holdings and unit trust funds in the second half of 2025. This was in line with better investor sentiment following the conclusion of trade negotiations with the US and increased optimism

¹² Refers to BNPL accountholders with at least one BNPL transaction in the past 12 months. A credit consumer may own multiple BNPL accounts with different providers.

¹³ Refers to BNPL accounts with one or more days past due, reflecting a more conservative measure than the approach used by banks.

over Malaysia’s economic prospects. Overall, household balance sheets remain robust, with total financial assets standing at 2.1 times the level of total household debt (June 2025: 2.1 times).

Chart 1.14: Household Sector – Annual Growth of Financial Assets



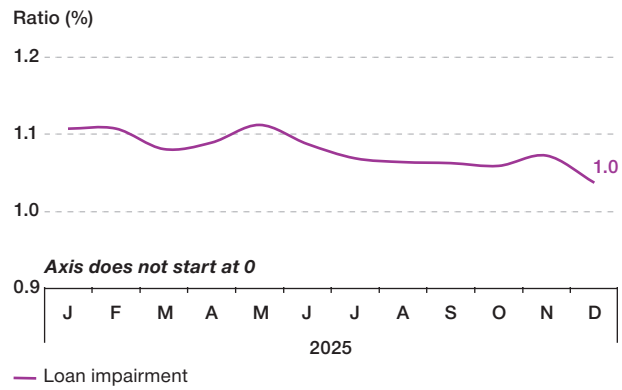
Source: Bank Negara Malaysia, Bursa Malaysia, Employees Provident Fund and Securities Commission Malaysia

The overall quality of household borrowings remained sound, supported by healthy debt-servicing capacity and favourable labour market conditions. As at end-December 2025, the household loan impairment ratio remained stable at 1.0% (June 2025: 1.1%) (Chart 1.15). The share of household loan exposures under repayment assistance was broadly stable, standing at 1.8% of total banking system and development financial institution loans (June 2025: 1.7%). Signs of emerging stress amongst household borrowers remained limited and isolated, with no broad-based trends in missed payments across income groups, employment sectors or regions.

Looking ahead, household credit risk is expected to remain stable and manageable in the near term, anchored by continued favourable

labour market conditions. Nevertheless, banks and AKPK remain vigilant to signs of financial distress among borrowers and continue to offer loan restructuring assistance where needed. Income growth, including from the civil servant salary adjustment in January 2026, is expected to further support households’ resilience. While rising household incomes may contribute to faster debt expansion through improved loan eligibility, risks are expected to remain contained given the sound lending practices of financial institutions.

Chart 1.15: Household Sector – Loan Impairment Ratio



Note: Data refers to banking system and development financial institution (DFI) loans.

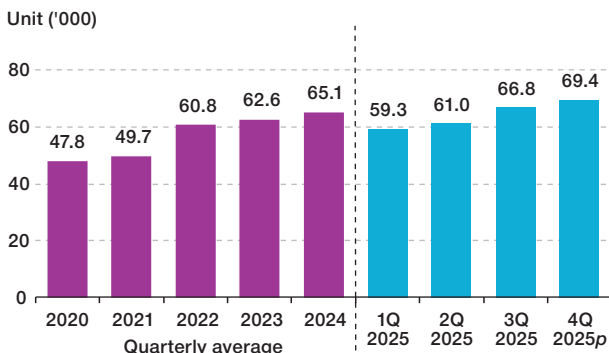
Source: Bank Negara Malaysia

Stress tests conducted by BNM indicate that under adverse scenarios of high unemployment and inflation, some segments of vulnerable borrowers such as lower-income borrowers and highly indebted borrowers with thin financial buffers remain susceptible to financial distress. Under a severe labour market shock in which the unemployment rate rises to 6%, up to 5.3% of household loans in the banking system are at risk of defaulting by end-2028. However, these potential losses remain well within banks’ excess capital buffers (refer to the section on ‘Assessing the Resilience of Financial Institutions’ for more details).

Key Developments in the Second Half of 2025: Property

In the residential property sector, market activity remained stable following improvements in employment and income conditions, continued access to financing as well as policy support for first-time home buyers.¹⁴ Transaction volumes have been steady in recent quarters (4Q 2025: 69,447 units; 2Q 2025: 61,019 units) (Chart 1.16), with the mass-market segment (houses priced RM500,000 and below) accounting for approximately three-quarters of total transactions. Following this, house prices continued to grow, albeit at a more moderate pace of 2.3% in the third quarter of 2025 (2Q 2025: 3%) (Chart 1.17). The growth was largely driven by landed properties, reflecting strong demand amid comparatively limited supply relative to high-rise units.

Chart 1.16: Property Market – Residential Property Transaction Volume*

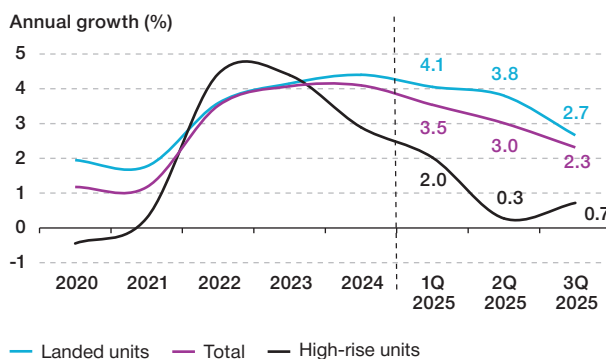


* Excludes serviced apartments and small office, home office (SOHO) as they are both classified as commercial properties under NAPIC.

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Source: National Property Information Centre (NAPIC)

Chart 1.17: Property Market – Malaysian House Price Index (MHPI) Growth by Property Type



Note: High-rise units include condominiums, apartments and flats, but excludes serviced apartments and small office, home office (SOHO).

Source: National Property Information Centre (NAPIC) and Bank Negara Malaysia estimates

The housing market continues to face persistent supply-demand mismatches. The number of unsold housing units¹⁵ inched higher (Chart 1.18) but constitutes only a small share of overall housing stock (4Q 2025: 2.5%; 2Q 2025: 2.3%). This increase largely reflects a strong pipeline of incoming supply, following record-high new residential property launches in 2024 (newly launched residential units in 2024: 94,674 units; 2023: 66,576 units).¹⁶ At the same time, existing unsold units exhibit signs of structural stickiness. Almost two-fifths of total unsold properties have remained on the market for at least three years. The persistent oversupply of these units largely reflects housing affordability constraints and project-specific unsuitability (e.g. location and target demographic). However, among developers with such longstanding inventories, those with a high¹⁷ share of unsold units relative to their total launches account for only 15.8% of all developers with unsold stock. This indicates that inventory stickiness is limited to a small subset of developers.

Access to financing in the residential property sector remained forthcoming. End-financing grew by 5.9% year-on-year (June 2025: 6.4%), driven mainly by owner-occupiers¹⁸ who typically have strong incentives to service their debt obligations. Conversely, loan growth among property speculators¹⁹ remained limited (Chart 1.19). Credit quality in the housing loan portfolio remained stable, with the overall impairment ratio remaining unchanged at 1.1% (June 2025: 1.1%). Notably, the impairment ratio for property investors²⁰ is relatively lower (0.8%), reflecting banks' prudent lending standards. Property investors generally have stronger financial capacity, with 62.1% of them earning at least RM10,000 monthly (compared to 31.2% of owner-occupiers).

¹⁴ As announced in Budget 2026, first-time home buyers purchasing residential properties valued at RM500,000 and below are eligible for stamp duty exemptions until 31 December 2027. First-time home buyers are also eligible for income tax relief on mortgage interest payments (up to RM7,000 for properties valued below RM500,000; up to RM5,000 for properties valued between RM500,000 and RM750,000) until 31 December 2027.

¹⁵ Refers to both unsold under construction units and unsold completed units. Figures include unsold residential property (landed residential properties, low-cost flats, flats, condominiums and apartments), as well as serviced apartments and small office, home office (SOHO).

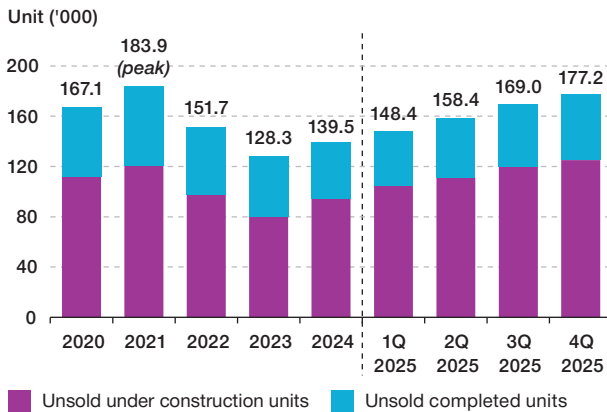
¹⁶ Excludes new launches of serviced apartments and SOHO.

¹⁷ For the purposes of this report, developers with a high share of unsold units are generally those with more than 40% of their launched units remaining unsold.

¹⁸ Proxied by individual borrowers with one outstanding housing loan, including first-time home buyers.

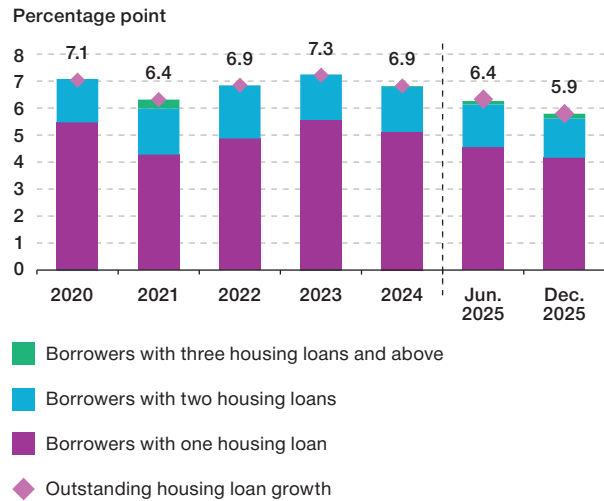
¹⁹ Proxied by individual borrowers with three or more outstanding housing loans.

²⁰ Individual property investors refer to borrowers with two or more outstanding housing loans.

Chart 1.18: Property Market – Volume of Unsold Housing Units

Note: Figures include both unsold under construction and unsold completed units for residential properties, serviced apartments, and small office, home office (SOHO) units.

Source: National Property Information Centre (NAPIC)

Chart 1.19: Property Market – Contribution to Annual Growth of Housing Loans by Type of Borrower

Source: Bank Negara Malaysia

The median loan-to-value (LTV) ratio of overall outstanding housing loans remained prudent at 70.3% as of December 2025 (June 2025: 70.2%). This provides comfortable buffers for both banks and borrowers, reducing the risk of borrowers falling into negative equity if house prices were to decline. Looking ahead, downside risks to financial stability arising from the residential property sector are expected to remain low, underpinned by sound lending standards by banks and continued economic expansion.

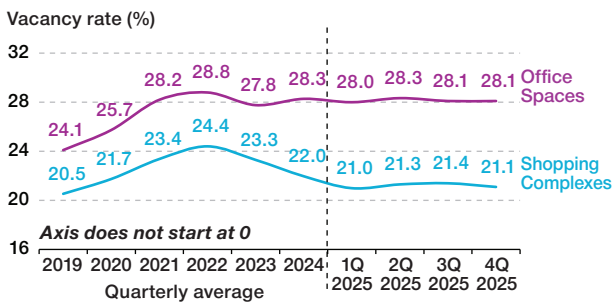
In the non-residential property (NRP)²¹ sector, risks remain manageable despite ongoing challenges in the office space and shopping complex (OSSC) segments. The growing adoption of hybrid work arrangements and flexible workspaces suggests that office space supply is expected to remain in surplus in the medium term. A similar trend is observed in the shopping complex segment, as the completion of several new retail spaces throughout 2025 and sizeable incoming supply could exacerbate oversupply conditions in this segment, particularly in the Klang Valley (existing supply in 4Q 2025: 82.1 million square feet; 2Q 2025: 79.2 million square feet; 2026–28 incoming supply: +5.6 million square feet).²² Although vacancy rates in both segments remain broadly elevated compared to their 2019 levels, they have improved from their pandemic-induced peak in 2022 (Chart 1.20).

Overall, risks to financial stability arising from the NRP sector remain limited. The impairment ratio for the NRP loan portfolio remained low at 1.5% (June 2025: 1.5%) (Chart 1.21). Risks arising from the OSSC segments also remain contained. Despite its pre-existing vulnerabilities, end-financing to the OSSC segments represents a relatively small portion of total banking system loans at 2.5% (June 2025: 2.6%), with a stable impairment ratio of 2.3% (June 2025: 2.2%). Furthermore, the median outstanding LTV ratio for the OSSC segments remains prudent at 59.2% (June 2025: 59.3%), providing substantial buffers against potential price corrections. Looking ahead, risks in the overall NRP sector are expected to remain manageable, while developments within the OSSC segments will continue to be closely monitored.

²¹ When discussing the Malaysian market in this box, we use the term 'non-residential property' which covers the office space and shopping complex segments and shophouses (which are typically classified as commercial real estate in Malaysia), in addition to other non-residential segments such as industrial building, hotel and land purchases.

²² Source: Jones Lang Wootton

Chart 1.20: Property Market – Vacancy Rate of Office Spaces and Shopping Complexes



Source: National Property Information Centre (NAPIC) and Bank Negara Malaysia estimates

Chart 1.21: Property Market – Loan Impairment of Non-residential Property Purchased

