

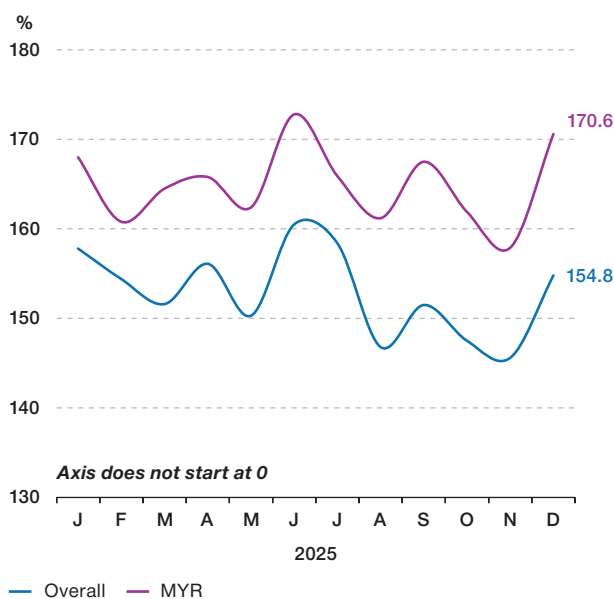
Financial Institution Soundness and Resilience

THE BANKING SECTOR

Banks' strong liquidity and funding positions remained supportive of financial intermediation

In the second half of 2025, the banking system liquidity and funding conditions remained resilient against liquidity shocks. 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 154.8% and 115.7% respectively as at end-December 2025 (June 2025: 160.5% and 115.7% respectively). In addition to liquidity balances at Bank Negara Malaysia (BNM), banks continued to hold sizeable government bonds and sukuk, which can be pledged in the interbank market or with BNM for access to additional liquidity.

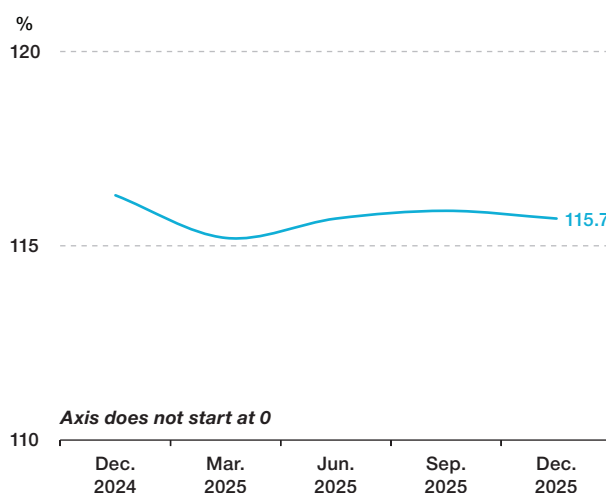
Chart 2.1: Banking System – Liquidity Coverage Ratio



Note: 1. MYR LCR is calculated based on 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

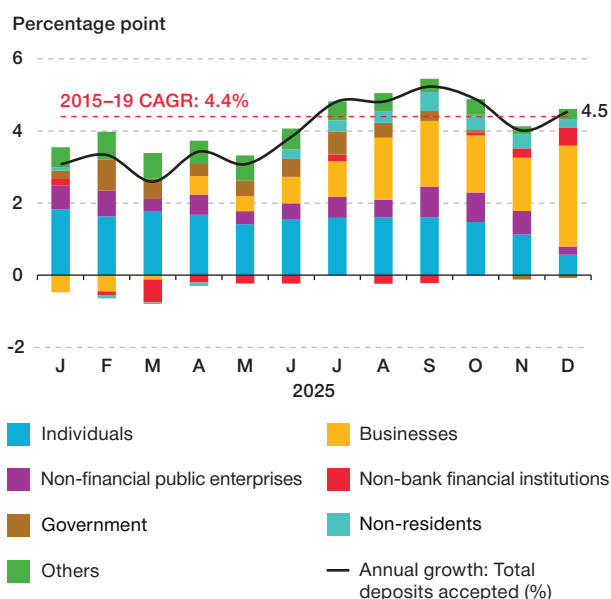


Source: Bank Negara Malaysia

As at December 2025, banking system deposits¹ grew by 4.5% year-on-year (June 2025: 3.8%) (Chart 2.3). This was largely driven by sustained growth in deposits from resident businesses (including non-financial public enterprises) and individuals, which together continued to form the core of the funding base, accounting for 73.3% (June 2025: 73.1%) of total deposits. Non-bank financial institutions (NBFIs) and the government remained the next largest contributors at 9.8% and 6.4% respectively (June 2025: 8.9% and 7.2% respectively). Fixed deposits (including Commodity Murabahah) continued to underpin the stability of banks' funding structure, accounting for over half of total banking system deposits (50.7%; June 2025: 51.4%; 2015–19 average: 51.7%) (Chart 2.4).

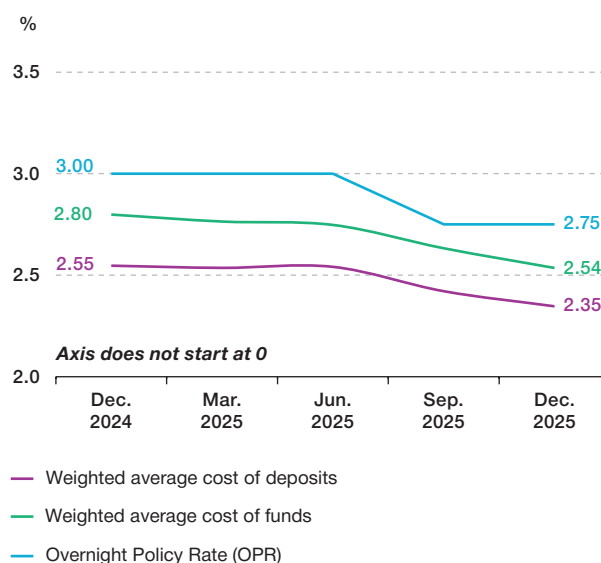
¹ Banking system deposits refer to deposits from resident individuals, businesses, NBFIs, the government and banking institutions, and non-residents. Starting from BNM's Financial Stability Review for First Half 2025, banking system deposits exclude repurchase agreements and thus, may not be directly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

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



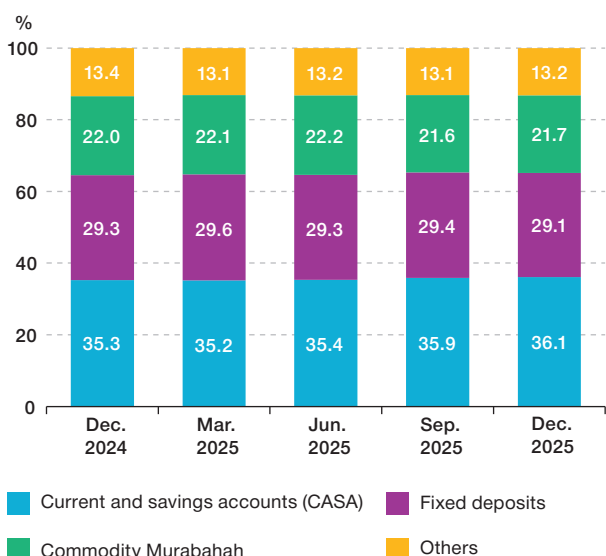
Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

The year-end seasonal deposit competition was notably more moderate compared to previous years, as banks proactively diversified their funding sources. The Overnight Policy Rate (OPR) reduction in July 2025 also contributed to an easing in banks’ funding costs. Reflecting these developments, the weighted average cost of funds declined to 2.54% as at December 2025 (June 2025: 2.75%) (Chart 2.5).

Overall, banks remain well-positioned to support credit intermediation. Funding and liquidity risks remain well-contained, supported by prudent liquidity management and diversified funding sources.

Risks from banks’ external debt remained limited

Onshore banks’ external debt increased slightly in the second half of 2025 to RM299.1 billion (June 2025: RM297 billion). Including external debt of banks operating in the Labuan International Business and Financial Centre (LIBFC), overall banks’ external debt amounted to RM451.3 billion (June 2025: RM448 billion) (Chart 2.6). This modest increase was driven mainly by onshore banks, reflecting their higher interbank borrowings from related counterparties. Such exposures generally carry lower rollover risk compared to borrowings from unrelated external counterparties. The increase in overall banks’ external debt was partly offset by foreign exchange (FX) revaluation gains following the appreciation of the ringgit against the US dollar over the period.

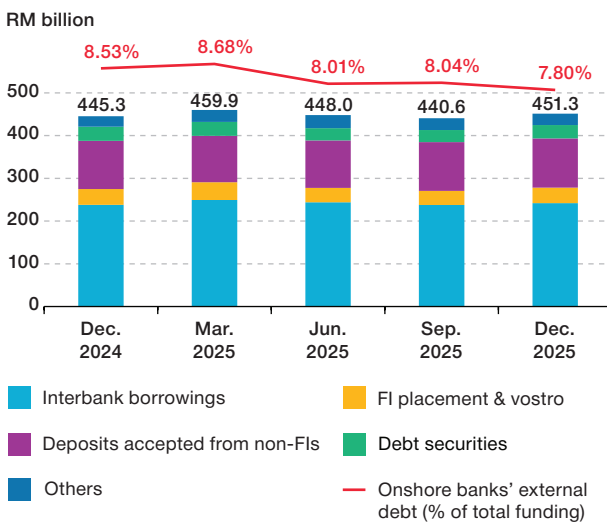
Funding and liquidity risks associated with banks’ external debt remained contained. As at December 2025, funds sourced from external counterparties accounted for only 7.8% of total banking system liabilities and equity. This indicates banks’ limited reliance on external sources to support their funding needs. Foreign currency (FCY) external debt-at-risk² also remained well-buffered. Banks continued

² 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.

to hold sizeable FCY liquid assets amounting to RM237.9 billion (June 2025: RM246 billion), which provided coverage of up to 2.9 times the level of FCY external debt-at-risk (Chart 2.7).

Banks continued to prudently manage exposures to FX risks, as reflected in the small overall FX net open position (NOP) and USD NOP, which stood at 3.9% (June 2025: 4.4%; 2020–22 average: 4.2%) and 2.2% (June 2025: 2.6%; 2020–22 average: 3%) of total capital respectively (Chart 2.8).

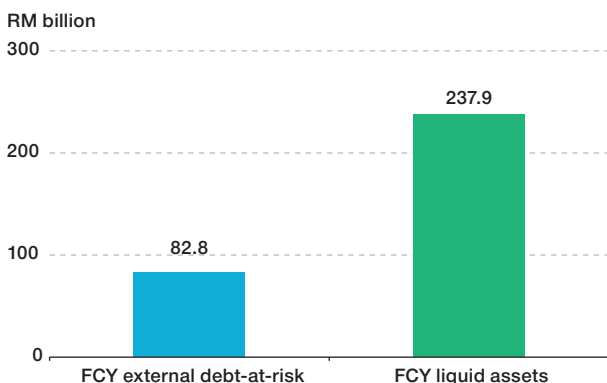
Chart 2.6: Banks' External Debt – by Instrument



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

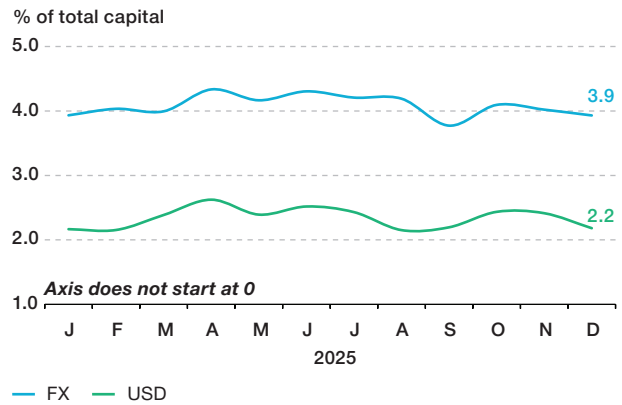
Chart 2.7: Banks' FCY External Debt-at-Risk and Liquid Assets



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

Source: Bank Negara Malaysia

Chart 2.8: Banking System – FX and USD Net Open Positions



Source: Bank Negara Malaysia

Banking system asset quality remained sound

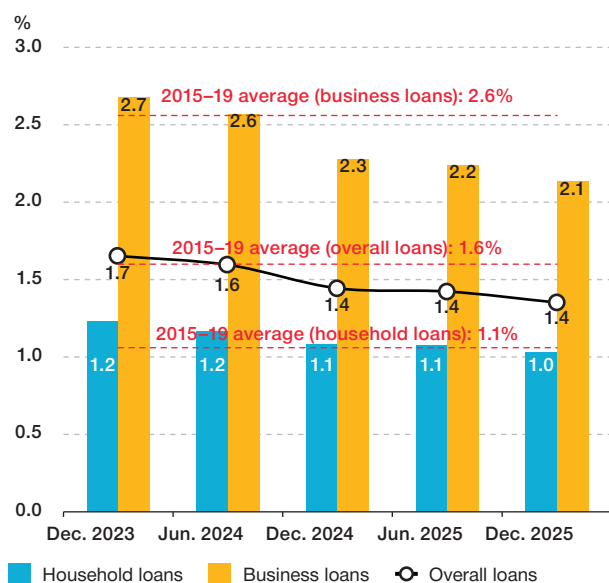
Despite a small segment of small and medium enterprise (SME) borrowers facing difficulty in servicing their loans, the gross impaired loans ratio remained stable at 1.4% as at December 2025 (June 2025: 1.4%) (Chart 2.9). Meanwhile, the share of Stage 2 loans decreased to 6.1% of total banking system loans (June 2025: 6.6%; 2018–19 average: 7.6%) (Chart 2.10), mainly reflecting the upgrading of several corporate exposures to Stage 1.³ Newly restructured and rescheduled loans during the period remained small at 0.19% of banks' total loans (1H 2025: 0.18%), indicating that risks of asset quality deterioration remain contained.

While repayments remained stable, banks continued to practise prudent provisioning. The banking system loan loss coverage ratio (including regulatory reserves) remained high at 127.2% (June 2025: 130.4%) (Chart 2.11). Management overlays,⁴ which have been reduced over recent years after being built up during the COVID-19 pandemic, have remained unchanged at 23% as a share of expected credit loss (ECL) provisions for loans since June 2025. The sustained level of provisions, together with higher recoveries recorded in the second half of 2025, contributed to lower annualised credit costs of 10 basis points (bps) (June 2025: 14 bps) (Chart 2.12).

³ Based on Malaysian Financial Reporting Standard (MFRS) 9, credit exposures are classified into three stages according to their credit quality. Stage 1 refers to performing exposures that have not experienced a significant increase in credit risk since initial recognition, for which banks are required to set aside provisions based on 12-month expected credit losses (ECL). Stage 2 refers to exposures that have exhibited a significant increase in credit risk, requiring provisions based on lifetime ECL. Stage 3 refers to credit-impaired exposures, which also require provisions based on lifetime ECL.

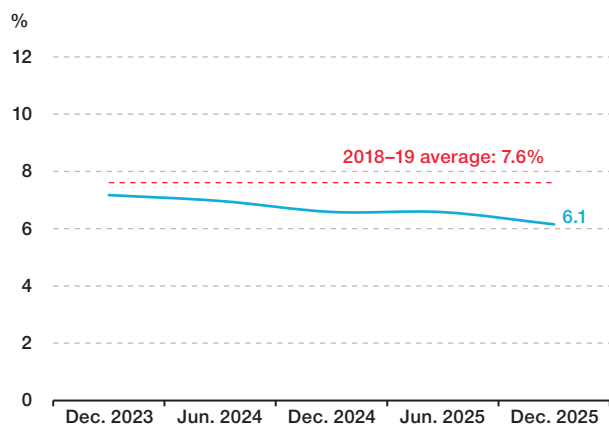
⁴ Management overlays are additional provisions set aside on top of provisions derived from ECL models. It reflects adjustments to account for data deficiencies or uncertainties not adequately captured by the ECL models.

Chart 2.9: Banking System – Gross Impaired Loans Ratio



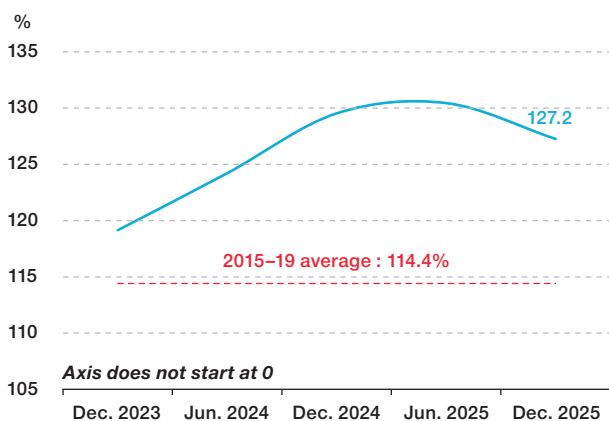
Source: Bank Negara Malaysia

Chart 2.10: Banking System – Stage 2 Loans Ratio



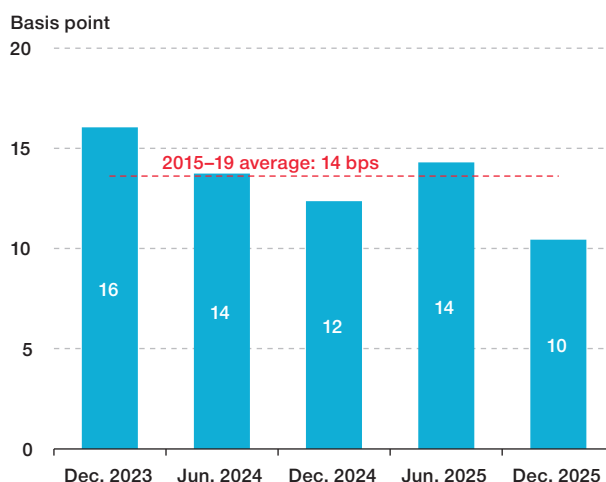
Source: Bank Negara Malaysia

Chart 2.11: Banking System – Loan Loss Coverage Ratio (Including Regulatory Reserves)



Source: Bank Negara Malaysia

Chart 2.12: Banking System – Annualised Credit Cost Ratio



Source: Bank Negara Malaysia

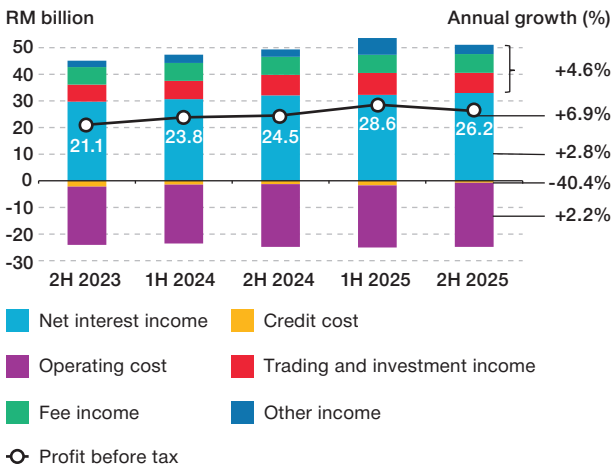
Banks’ profitability continued to be supported by interest income

Banks’ profitability remained healthy and continued to be supported by interest income in the second half of 2025 (Chart 2.13). Following the OPR cut in July 2025, net interest margins (NIM) narrowed as the reduction in interest income on loans outpaced the decline in funding costs. After easing through September 2025, NIM subsequently stabilised at 1.99% as at December 2025 (June 2025: 2.01%; 2015–19 average: 2.11%), underpinned by lower interest expense on deposits as maturing fixed deposits were rolled over at lower prevailing interest rates. Profitability was further supported by trading and investment income, which amounted to RM7.6 billion in the second half of 2025 (1H 2025: RM8.3 billion).

Consistent with sustained earnings, returns on assets (ROA) and equity (ROE) of the banking system remained stable at 1.5% and 13.1% respectively as at December 2025 (June 2025: 1.5% and 13.8% respectively).⁵ Market valuations of listed banks, as measured by price-to-book (P/B) and price-to-earnings (P/E) ratios, remained broadly anchored to fundamentals (Chart 2.14). Moving forward, banks’ profitability is expected to remain supported by sustained interest income, underpinned by sound asset quality, continued credit growth and positive domestic growth prospects. However, this outlook remains subject to uncertainties surrounding the impact of the conflict in the Middle East and trade tariffs on Malaysia’s economic and financial conditions.

⁵ ROA and ROE are calculated using profit before tax. Using profit after tax, ROE stood at 10.2% (June 2025: 10.8%).

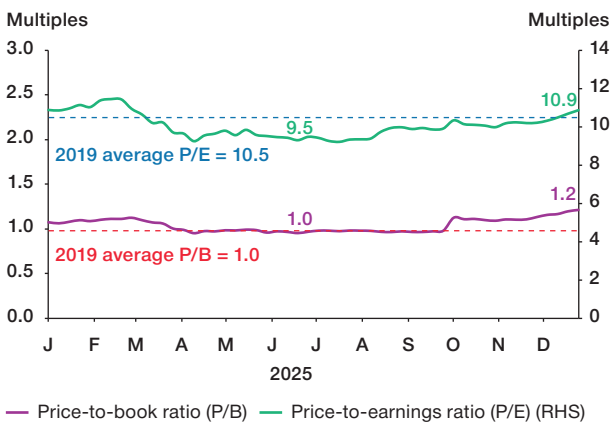
Chart 2.13: Banking System – Income, Cost and Profit before Tax



Note: 1. Annual growth computed based on figures for 2H 2024 and 2H 2025.
2. Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Chart 2.14: 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.

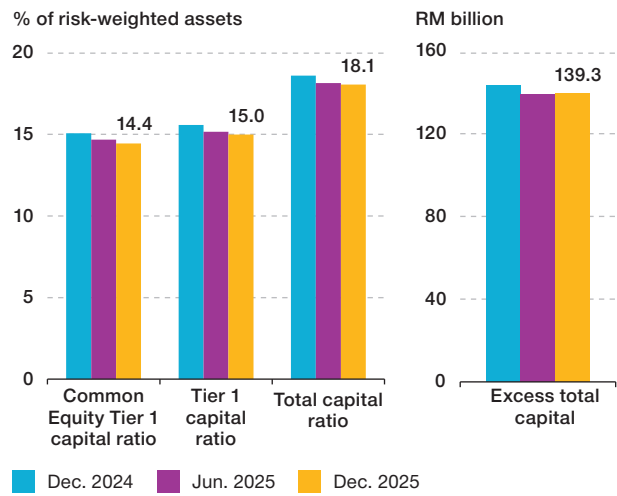
Source: Bloomberg

Banking system remained well-capitalised

The banking system total capital ratio remained strong at 18.1% of total risk-weighted assets (June 2025: 18.2%), with excess capital buffers amounting to RM139.3 billion (June 2025: RM138.9 billion) (Chart 2.15). Capital conservation strategies, including dividend reinvestment programmes, continued to support the maintenance of strong capital buffers. These buffers reinforce banks’ capacity to sustain lending activities, particularly in the current environment where businesses and households continue facing elevated cost

pressures. Strong capital positions also enable banks to withstand unexpected shocks, as evidenced in BNM’s recent stress test exercise.⁶

Chart 2.15: 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 domestic banking groups’ overseas operations continued to be limited

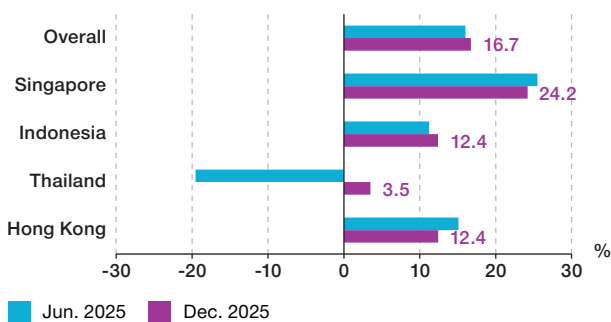
Overall, the overseas operations of domestic banking groups (DBGs) remained profitable in the second half of 2025 (Chart 2.16). Profitability continued to be driven mainly by operations in Singapore, which accounted for 54% of overseas operations’ assets (Chart 2.17), supported by sustained net interest and non-interest incomes. Notably, operations in Thailand recorded a positive average ROE of 3.5% (June 2025: -19.5%), marking a return to profitability after around two years of losses driven by elevated credit costs from non-retail borrowers.

Asset quality across overseas operations improved, with the gross impaired loans ratio declining to 1.9% (June 2025: 2%) (Chart 2.18). This was mainly contributed by operations in Indonesia, where write-offs and improved repayment performance led to better asset quality outcomes. Liquidity and funding risks remained limited, as major overseas operations continued to be primarily funded by stable customers deposits (Chart 2.19). Capital positions across DBGs’ overseas subsidiaries remained healthy, reflected in an average total capital ratio of 18.8% as at December 2025 (June

⁶ Refer to the section on ‘Assessing the Resilience of Financial Institutions’ of this publication for further details on the stress test exercise.

2025: 18.6%). Notwithstanding recent volatility in the Indonesian equity market, DBGs' operations in Indonesia continued to be supported by healthy capital buffers, with an average total capital ratio of 22.3% as at December 2025 (June 2025: 21.5%). Spillover risks to parent banks in Malaysia are expected to be limited, as operations in Indonesia contributed only around 7% of parents' total consolidated assets.

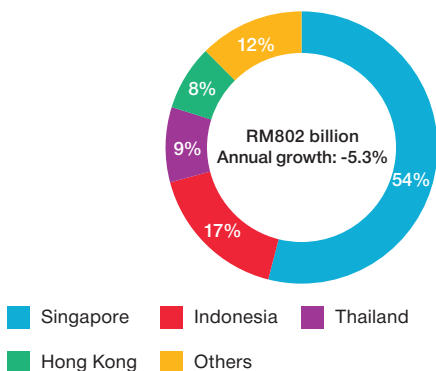
Chart 2.16: Banking System – Return on Equity of Overseas Operations by Jurisdiction



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

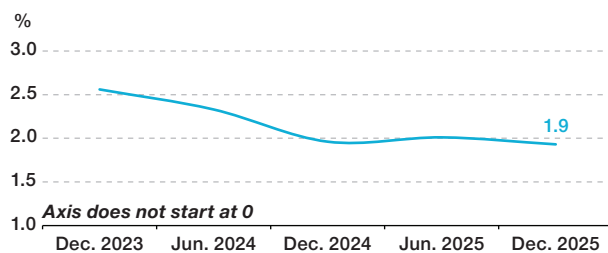
Chart 2.17: Banking System – Asset Profile of Major Overseas Operations



Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

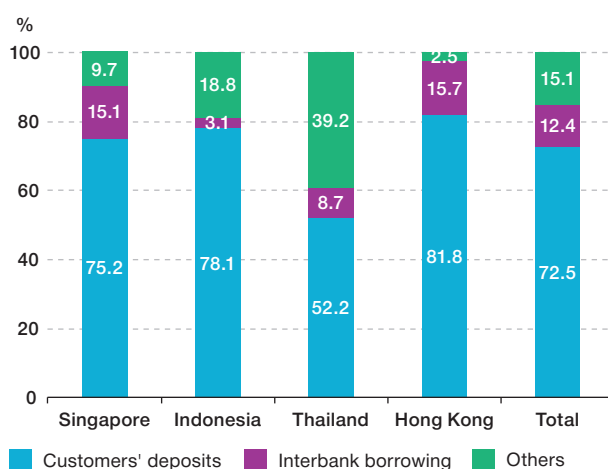
Chart 2.18: Banking System – Gross Impaired Loans Ratio of Overseas Operations



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

Source: Bank Negara Malaysia

Chart 2.19: Banking System – Funding Profile of Major Overseas Operations



Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia