Key Highlights on
Financial Stability Review – Second Half 2020

Banks remain well-positioned to support economic recovery despite challenging credit risk outlook

Strong financial buffers despite lower earnings

- **18.5%** Total capital ratio *(Jun '20: 18.3%)*
- **14.8%** Common Equity Tier 1 capital ratio *(Jun '20: 14.6%)*
- **RM126.7 billion** Excess capital buffers *(Jun '20: RM122 billion)*
- **9.2%** Return on equity *(Jun '20: 10%)*

Healthy liquidity positions supported by stable funding conditions

- **148%** Liquidity Coverage Ratio *(Jun '20: 149%)*
- **116%** Net Stable Funding Ratio[1] *(in force since 1 July 2020)[2]*

Credit risk to rise, but buffered by higher provisions

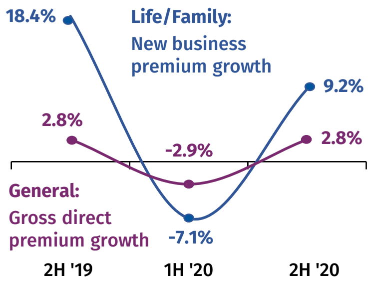
- **10%** Share of Stage 2 loans *(Jun '20: 8.4%)*
- **40.6%** Growth in total provisions *(Jun '20: 9%)*
- **1.7%** Total provisions to total loans *(Jun '20: 1.4%)*
- **107.9%** Loan loss coverage ratio *(Jun '20: 95.4%)*

Insurance and takaful operators (ITOs) continue to remain well-capitalised amid a recovery in business activities in the second half of the year

ITOs maintained healthy capital buffers, well above regulatory minimum

- **220%** Capital adequacy ratio *(Jun '20: 227%)*
- **RM36 billion** Excess capital buffers *(Jun '20: RM37 billion)*

Investment-linked and motor segments drove recovery in premium growth...



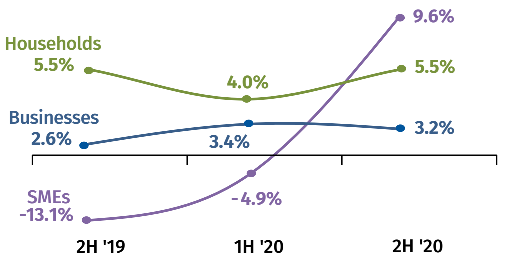
...while impact from COVID-19 support measures and floods has been manageable

- **7.7%** Cumulative amount of premium deferred and on holiday as a percentage of premium in force
- **3.2%** Estimated gross claims from flood events as a percentage of 2020 operating profits

Financial intermediation remained supportive of the economy amid sustained orderly market conditions

Financing conditions remained conducive for economic growth, supported by various policy measures

Annual Growth of Financing Activities[3]

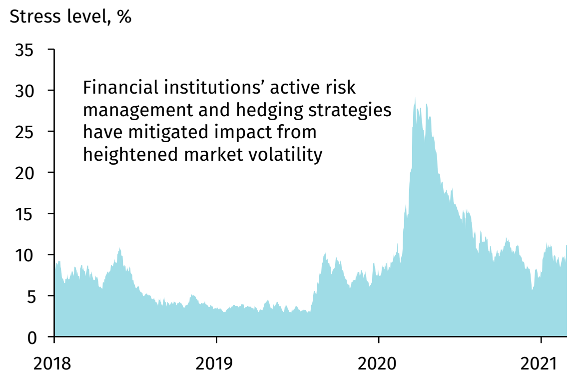


Lower financing costs following OPR reductions in 2020

Various measures supporting financing activities including SST exemption, Home Ownership Campaign, guarantee schemes, BNM funds

Financial market stress receded from levels seen at the onset of the pandemic with orderly market conditions preserved

Financial Market Stress Index



[1] Replaces the loan-to-fund (LTF) and loan-to-fund-and-equity (LTFE) ratios as a measure of banks' funding profile
[2] Minimum requirement of 80% and banks are expected to comply with minimum NSFR of 100% by 30 September 2021
[3] Loans/financing extended by banks and non-bank financial institutions. For businesses, figures include outstanding non-financial corporate bonds/sukuk. For SMEs, figures partly reflect the exercise by financial institutions to reclassify selected SMEs to non-SMEs in 2018 and 2019

Source: Bank Negara Malaysia

Debt-servicing capacity of most households has been sustained, supported by existing financial buffers and relief measures

Aggregate financial buffers are broadly intact

Household Financial Assets Indicators

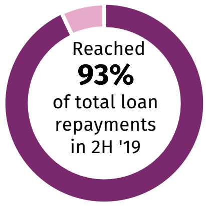
2.2 times
Financial assets-to-debt
(Jun '20: 2.2 times)

1.5 times
Liquid financial assets-to-debt
(Jun '20: 1.4 times)

Note: Prudent threshold is one time for both indicators

Most households resumed loan repayments after automatic moratorium ended...

Total Loan Repayments[4] in 2H '20



... with support measures helping households that are more financially-stretched

Government support measures including direct cash transfers, EPF withdrawals and reduction in employees' EPF contributions

8.9% of household loan accounts are under repayment assistance *(11.1% by value)*

Outlook for certain business segments remains challenging amid an uneven recovery

Overall financials sustained despite weaker earnings performance

Business Sector Indicators[5]

Profitability – Operating margin	4.7% ▼ (2Q '20: 5%)
Leverage – Debt-to-equity ratio	23.4% ▼ (2Q '20: 24.2%)
Liquidity – Cash-to-short-term debt ratio	1.1 times ▲ (2Q '20: 1 time)
Debt-servicing capacity – Interest coverage ratio	4.1 times ▲ (2Q '20: 3.9 times)

Firms-at-risk[6] remained elevated with more businesses in COVID-19-affected sectors seeking repayment assistance

Share of Firms-at-risk to Total Listed Corporates

31.8%
(2Q '20: 32.9%; 5-year average: 21.7%)

Business Loans Under Repayment Assistance

9.7% *By account*
17% *By value*
(% of total business loans)

Share of R&R Loans for Selected Sectors[7]

- **52.8%** Hotels and restaurants
- **24.5%** Real estate
- **17.8%** Transport and storage
- **14.8%** Wholesale and retail trade

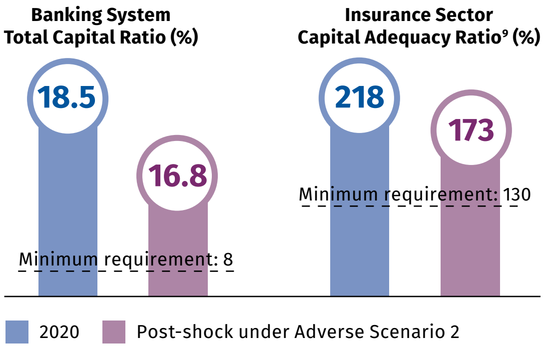
Latest stress tests affirm resilience of financial system to simulated shocks under more severe economic conditions

Two hypothetical[8] adverse scenarios are developed, with the horizon extended until the end of 2022

Adverse Scenario 2

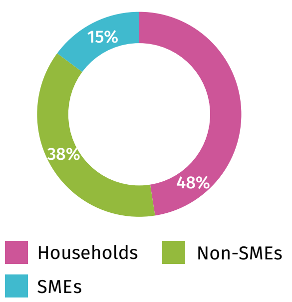
- GDP remains negative in 2021 and below pre-pandemic levels throughout 2022
- Unemployment rate increases further and remains elevated
- Weaker commodity prices in 2021 and 2022
- Lower house price growth in 2021 and 2022, exacerbated by weaker income growth, rising foreclosures and oversupply conditions

Post-shock, banking and insurance sectors maintain capital levels well above regulatory minimum



Banks' losses largely attributed to higher credit costs, while insurers' losses driven by market risk, assumed reinsurance defaults and higher claims

Banks' Cumulative Credit Losses Drivers under Adverse Scenario 2



Note: Figures may not add up due to rounding

Insurers' Key Loss Drivers under Adverse Scenario 2

Life Insurers
- **52%** from increase in liabilities

General Insurers
- **54%** from higher claims and insurance capital charges[10]
- **42%** from assumed reinsurance default

[4] Exclude credit cards
[5] Data as at 3Q 2020. Prudent thresholds of cash-to-short-term debt ratio and interest coverage ratio are one time and two times, respectively
[6] Defined as listed non-financial corporates with interest coverage ratio below the prudent threshold of two times
[7] Refers to percentage of loan exposures to the sector that have undergone rescheduling and restructuring (R&R)
[8] The economic scenarios do not represent the Bank's actual expectations for the economic trajectory but rather, have been developed specifically for stress test purpose. These scenarios are not likely to materialise
[9] Includes both life and general insurers
[10] Largely driven by an increase in claims liability due to assumed higher claims ratio

Source: Bank Negara Malaysia and S&P Capital IQ