BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Financial Stability Review

First Half 2025

FSR

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Preface

This Financial Stability Review – First Half 2025 provides Bank Negara Malaysia's assessment on current and potential risks to financial stability and the resilience of the Malaysian financial system to sustain its financial intermediation role in the economy. It also reports on any actions that have been taken to manage risks to financial stability and contains box article(s) on topics of special interest.

This publication is intended to promote greater awareness on issues and developments affecting financial stability.

This document uses data available up to 16 October 2025, unless otherwise stated.

Contents

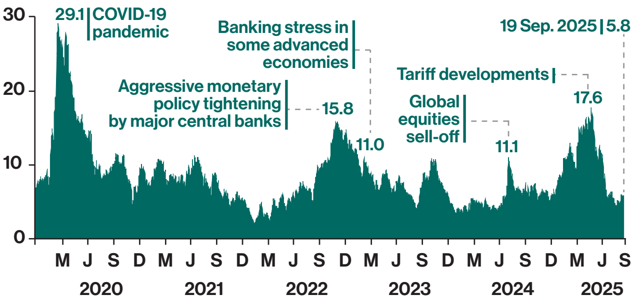
Key Highlights on
Financial Stability Review – First Half 2025

Domestic financial markets remained orderly despite heightened global market volatility

Market volatility eased following expectations for favourable outcomes from remaining US trade negotiations

Financial Market Stress Index (FMSI)

Stress level, % (Minimum=0, Maximum=100)



Orderly market conditions continued to be preserved, supported by...

- Robust domestic capital markets
- Strong and resilient financial institutions
- Continued presence of a diversified investor base
- Healthy demand for government bonds

Financial institutions remained resilient and well-capitalised to meet financing and protection needs

Banks continued to demonstrate strong capital and liquidity positions...

- **18.2%** Total Capital Ratio *(Dec. 2024: 18.6%)*
- **160.5%** Liquidity Coverage Ratio *(Dec. 2024: 160.7%)*
- **115.7%** Net Stable Funding Ratio *(Dec. 2024: 116.3%)*

...supported by sound asset quality

- **1.4%** Gross Impaired Loans Ratio *(Dec. 2024: 1.4%)*
- **130.4%** Loan Loss Coverage Ratio[1] *(Dec. 2024: 129.6%)*

Insurers and takaful operators remained well-capitalised to withstand potential headwinds

RM42 billion
Excess Capital Buffers
(Dec. 2024: RM41 billion)

222.5%
Capital Adequacy Ratio
(Dec. 2024: 224.3%)

Households' and businesses' debt repayment capacity remained intact

Households' debt-servicing capacity is supported by positive labour market conditions

- **41%** Median Debt Service Ratio for New Loans *(Dec. 2024: 41%)*
- **1.4x** Median Debt-to-Income Ratio *(Dec. 2024: 1.4x)*
- **1.7%** Share of Household Loans under RA[2] *(Dec. 2024: 1.8%)*
- **1.1%** Household Loan Impairment Ratio *(Dec. 2024: 1.1%)*

Businesses are resilient amid global trade uncertainties, geopolitical developments and cost pressures

- **7.3%** Operating Margin *(Dec. 2024: 8.0%)*
- **6.2x** Interest Coverage Ratio *(Dec. 2024: 6.5x)*
- **24.4%** Share of Firms-at-Risk (Overall Business) *(Dec. 2024: 25.7%)*
- **1.5x** Cash-to-Short-Term Debt Ratio *(Dec. 2024: 1.5x)*

[1] Including regulatory reserves.
[2] Share of household loans under repayment assistance (RA) as a proportion of total banking system and development financial institutions' loans.

Source: Bank Negara Malaysia, Bloomberg, Reuters and S&P Capital IQ

Box Article: Transition from KLIBOR[3] to MYOR/MYOR-i[4]

Malaysia is transitioning to the more robust, transaction-based MYOR/MYOR-i, in line with global financial benchmark reforms

Given the differing features of KLIBOR and MYOR/MYOR-i, market participants must ensure adequate preparations that commensurate with their respective operations and exposures

1. **Establishing Internal Governance Arrangements**
   To oversee the transition of operational functions and business lines to MYOR/MYOR-i
2. **Reviewing and Updating Contracts**
   To ensure alignment with the shift to MYOR/MYOR-i
3. **Enhancing Systems**
   To ensure seamless integration to new calculations and reporting requirements
4. **Ensuring Sufficient Resources**
   For staff training and customer engagement to promote awareness

To facilitate a coordinated and orderly transition, BNM has also collaborated with key industry players to implement a series of initiatives such as:

- **Publication of a transition roadmap** outlining key timelines and milestones to accelerate the financial industry's adoption of MYOR/MYOR-i, with KLIBOR set to cease by the end of transition
- **Establishment of the KLIBOR Transition Coordination Subcommittee and four Working Groups under the Financial Markets Committee**, tasked with recommending market conventions and legacy management approaches
- **Creation of a dedicated transition subpage** to disseminate updates and educational material to promote awareness
- **Publication of compounded MYOR/MYOR-i and indices** to serve as a standardised reference for market participants[5]
- **Concurrent efforts to support MYOR-i transition for Islamic financial market**, including promoting active interbank activity, broadening market participation, enhancing hedging capabilities and promoting diversification of MYOR-i-based financial products

Box Article: Progress in Strengthening Senior Management Accountability through Responsibility Mapping

Responsibility Mapping[6] elevates the standards of professional conduct among senior management, supports long-term financial stability and upholds the best interest of the financial institutions, shareholders and customers through a stronger culture of accountability

Responsibility Mapping

Policy Objectives

- Clarify individual responsibility of members of senior management and ensure that they are held accountable for areas under their purview
- Ensure responsibilities are assigned to individuals who have the professional competence and capabilities to effectively perform the responsibilities
- Additional supervisory tool for promoting strong risk culture in financial institutions

Principles of Responsibility Mapping

Principle 1	Principle 2	Principle 3	Principle 4
Establish process to identify and assign responsibilities to members of senior management	Allocate responsibilities to individual members of senior management	Hold individuals to standards expected of senior management	Complete and updated documentation of responsibilities

[3] Refers to Kuala Lumpur Interbank Offered Rate (KLIBOR).
[4] Refers to Malaysia Overnight Rate (MYOR) and Malaysia Islamic Overnight Rate (MYOR-i) respectively.
[5] Target publication in Q4 2025.
[6] The Responsibility Mapping policy document was issued on 29 December 2023 and is set to take effect on 1 January 2026.

Source: Bank Negara Malaysia

Overview

Overview

Similar to other regional markets, Malaysia's financial markets continue to be influenced by global developments. Uncertainties over US tariff developments, global growth prospects and geopolitical tensions have contributed to increased volatility in global financial markets. The domestic Financial Market Stress Index (FMSI) rose temporarily to a peak in May 2025 before easing thereafter. The rise in FMSI mainly reflected volatility associated with positive performance of the ringgit and the domestic bond market. Funding and liquidity conditions remained supportive of financial intermediation throughout this period. Bank Negara Malaysia's (BNM) targeted liquidity operations and the Statutory Reserve Requirement (SRR) reduction from 2.00% to 1.00% effective 16 May 2025 helped ensure adequate domestic liquidity in an environment of greater financial market volatility. In the foreign exchange (FX) market, the ringgit was largely influenced by external developments, appreciating by 6.1% against the US dollar between March and September 2025.[1] Malaysia's favourable economic prospects and ongoing structural reforms are expected to continue supporting the ringgit.

In the first half of 2025, businesses remained resilient, underpinned by robust domestic demand and economic activities, despite global uncertainties and rising costs. The immediate impact of US tariffs on domestic financial stability was limited due to the tariff pause and exemptions on key export products. However, persistent cost pressures continued to pose challenges for businesses. Larger firms were better positioned to manage these headwinds, supported by stronger financial positions compared to pre-pandemic levels. On the other hand, small and medium enterprises (SMEs) with pre-existing vulnerabilities continued to face repayment challenges. Nonetheless, proactive cost management strategies adopted across firms have helped sustain their repayment capacity. As a result, the overall credit quality of business loans remained intact, with the impairment ratio and the share of loans with increased credit risk (Stage 2 loans) unchanged at 3.1% and 11.9% respectively. Looking ahead, the implementation of domestic policy measures could exert upward pressure on businesses' operating costs. However, moderating input prices amid contained global cost conditions and firms' ongoing mitigation strategies are expected to cushion the impact. Steady domestic demand and continued investment activity will remain as key pillars supporting businesses in this challenging operating environment.

Household resilience continued to be supported by positive labour market conditions. Household debt grew at a steady pace, driven mainly by housing and car loans, while consumption-related credit such as personal financing and credit cards expanded modestly. Although the aggregate household debt-to-GDP ratio edged marginally higher, borrowers' debt-servicing capacity remained healthy, backed by prudent lending standards. The median debt service ratios (DSRs) of newly approved and outstanding household loans were stable at 41% and 33% respectively. Buy now pay later (BNPL) schemes continued to expand rapidly, though the share of outstanding BNPL exposures remained small at 0.2% of total household debt. The establishment of the Consumer Credit Commission is expected to strengthen regulatory oversight of BNPL and other non-bank credit providers. Overall, the quality of household borrowings remained sound, as reflected in the stable impairment ratio and the declining share of household loans under repayment assistance. Despite ongoing cost-of-living pressures and external uncertainties, signs of emerging financial stress among households remain limited. Banks and the Credit Counselling and Debt Management Agency (AKPK) continue to monitor borrowers' financial health and stand ready to provide support where needed.

The banking system remained strong and well-positioned to withstand shocks and support financial intermediation in the economy. Banks remained well-capitalised with total capital ratio at 18.2% and excess capital buffers of RM138.9 billion as at end-June 2025. Funding and

[1] Data as of 19 September 2025.

liquidity positions remained healthy, with Liquidity Coverage Ratio (LCR) of 160.5% and Net Stable Funding Ratio (NSFR) of 115.7%. Banks' profitability was supported by higher interest income amid sustained loan growth and FX revaluation gains from the strengthening of the ringgit. Asset quality remained sound, with the gross impaired loans ratio and the share of Stage 2 loans unchanged at 1.4% and 6.6% respectively. Nevertheless, banks remained vigilant and maintained prudent provisioning, especially for borrowers in more vulnerable segments facing ongoing cost pressures.

The insurance and takaful sector remained resilient, supported by robust capital and liquidity positions. Improved bond investment and underwriting performance helped boost overall profitability of insurance and takaful funds. Reforms to address medical inflation continued to progress. At the same time, motor and fire insurance saw further progress under tariff liberalisation, supported by the ongoing rollout of digital roadside assistance initiatives. Looking ahead, insurers and takaful operators (ITOs) face risks from financial market volatility, rising motor and medical claims costs, and more frequent climate-related events. Nonetheless, ITOs remain well-positioned to manage these risks, backed by a strong aggregate capital adequacy ratio of 223% and excess capital buffers of RM42 billion.

The financial system remained operationally resilient amid evolving risks. Financial institutions' strengthened system safeguards led to a decline in technological disruptions, thereby improving system uptime and customer service experience. Amid persistent cyber threats, financial institutions continued to bolster their cyber vigilance and response capabilities. This resulted in a more effective containment and management of cyber threats with minimal operational disruptions. Enhanced fraud countermeasures have led to a marked decline in unauthorised transactions within the industry. However, there has been a discernible rise in authorised scams involving social engineering. In response, BNM and the financial industry have rolled out stronger fraud detection measures and expanded public awareness efforts. The National Fraud Portal is being upgraded to better trace suspicious transactions and protect victims. To further enhance the financial industry's cyber resilience, BNM will also be releasing an updated Risk Management in Technology (RMiT) policy. This policy aims to raise service availability standards and strengthen cyber defences across financial institutions and payment service providers.

Key Developments in the First Half of 2025

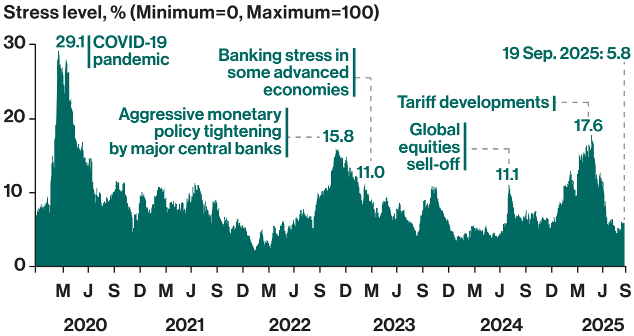
Key Developments in the First Half of 2025

MARKET RISK

Domestic financial markets remained orderly despite heightened global volatility

Similar to other regional markets, Malaysia's financial markets continue to be influenced by global developments. Uncertainties surrounding US tariff developments, concerns over global growth and geopolitical tensions have contributed to increased volatility in global financial markets. This volatility was reflected domestically, with the Financial Market Stress Index (FMSI) rising between March and May 2025 (Chart 1.1). The index peaked at 17.6% on 27 May 2025, following the US tariff announcements on almost all trading partners on 2 April 2025 and concerns over the US' long-term fiscal sustainability. Unlike past episodes of elevated stress, the increase in the FMSI mainly reflected volatility that accompanied positive performance of the ringgit and the domestic bond markets. These gains contributed to higher FMSI readings while overall market conditions remained orderly throughout the period.[1]

Chart 1.1: Financial Market – Financial Market Stress Index (FMSI)



Source: Bloomberg, Reuters and Bank Negara Malaysia estimates

Since reaching its May peak, the FMSI subsequently eased below its five-year historical average (2020–24 average: 7.3%), reflecting a moderation in volatility across all markets.

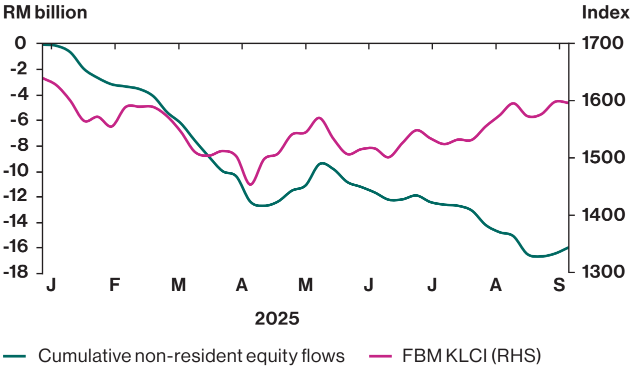
The domestic equity market recorded a modest gain, with the benchmark FBM KLCI rising by 1.5% between March and September 2025 (Chart 1.2). The KLCI performance during this period can be segmented into four distinct phases. In the first phase (March to early April), the KLCI declined by 11.1% amid risk-off sentiment following the announcement of US tariffs and countermeasures by other countries. This was followed by a strong rebound of 13.1% in the KLCI from mid-April to mid-May, supported by improved investor sentiment following a 90-day extension on US tariffs for most countries and the commencement of bilateral tariff negotiations. However, the KLCI experienced a decline of up to 4.4% between mid-May and end-July, amid the release of weaker-than-expected corporate earnings and lingering uncertainty over the impact of US tariffs on global trade and domestic economic growth. From August onwards, the KLCI recovered by 5.6%, supported by the conclusion of many trade negotiations which, to some extent, has eased global uncertainty.

Consistent with the heightened market volatility, non-resident investors recorded net outflows from the domestic equity market amounting to RM10.6 billion during the period (2024: -RM4.2 billion; March–September 2024: RM1.6 billion). These outflows were largely offset by domestic institutional investors,[2] who purchased RM10.4 billion worth of equities (2024: RM12 billion; March–September 2024: RM3.3 billion). Reflecting subdued investor sentiment, overall trading activity in the domestic equity market declined, with the total value traded amounting to RM659.7 billion (2024: RM1,560.4 billion; March–September 2024: RM993.5 billion). Retail investors' trading activity also moderated, accounting for only 16.9% of the total value traded in the domestic equity market (2024: 20.6%; 2022–24 average: 23.6%).

[1] All data and assessments in the Market Risk section refer to the period between 1 March and 19 September 2025, unless stated otherwise.

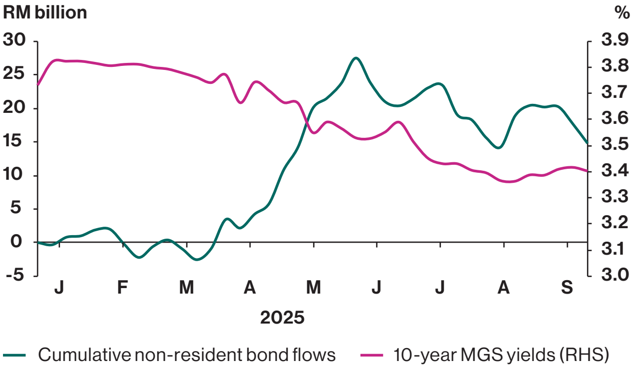
[2] Domestic institutional investors include banks, non-bank financial institutions (NBFIs) and insurers and takaful operators (ITOs).

Chart 1.2: Financial Market – Cumulative Non-resident Equity Flows and Performance of the Domestic Equity Market



Source: Bloomberg

Chart 1.3: Financial Market – Cumulative Non-resident Government Bond Flows and Performance of the Domestic Government Bond Market



Source: Bank Negara Malaysia and Bloomberg

Non-resident flows in the government bond market remained largely influenced by external factors

The 10-year Malaysian Government Securities (MGS) yields declined by 39 basis points (bps) between March and September 2025, averaging at 3.6% (October 2024–February 2025 average: 3.8%) (Chart 1.3). During the same period, the domestic government bond market recorded strong non-resident inflows, with net purchases amounting to RM14.4 billion, a notable increase compared to the inflows in 2024 (RM1.3 billion). These inflows were supported by improved sentiment towards several emerging market assets, including Malaysian government bonds, amid growing uncertainty over US policy direction and positive developments surrounding tariff negotiations.

Domestic institutional investors remained active in the government bond market, recording net purchases of RM22.1 billion in government bonds between March and September 2025 (March–September 2024: RM26.8 billion; 2024: RM80.6 billion). The sustained demand for government bonds was also reflected in the primary market, with a healthy bid-to-cover ratio of 2.7 times during the period (2022–24 average: 2.3 times).

In the corporate bond market, funding conditions remained healthy with RM79 billion raised between March and August 2025 (March–August 2024: RM64.1 billion). Average credit spreads between 10-year AAA-rated papers and 10-year MGS remained tight, at 20 bps on average within the period (2024 average: 20 bps; 2023 average: 44.1 bps), reflecting continued demand for corporate bonds by yield-seeking investors. Overall issuances remained concentrated in government-guaranteed and AAA-rated papers, which collectively accounted for more than half of the outstanding corporate bonds.

Total banking system liquidity in the first half of 2025 remained sufficient to support financial intermediation, ranging between RM63 billion and RM102 billion (2H 2024: between RM89 billion and RM108 billion). However, the domestic money market experienced intermittent tightness, driven by higher currency-in-circulation, fluctuations in government cash balances and multiple large bond issuances. More recently, there has also been temporary and sizeable liquidity outflows from the conventional to the Islamic banking system that led to tightness in the conventional money market. This shift in liquidity was driven by corporate deposit migration and intragroup funding to support the growth of Islamic financing. To alleviate the resulting pressure, BNM temporarily deployed the overnight reverse repo facility to ensure banks' continued access to overnight funding. Consequently, the Malaysia Overnight Rate (MYOR) tracked the Overnight Policy Rate (OPR) closely, with no discernible spread.

In order to further support liquidity conditions, BNM reduced the Statutory Reserve Requirement (SRR) ratio by 100 bps, from 2.00% to 1.00%, effective 16 May 2025. The reduction released approximately RM18.6 billion of liquidity into the banking system, which contributed to banks reducing borrowings through BNM's reverse repo facilities by RM13.8 billion. Prior to the SRR cut, outstanding reverse repo stood at RM47.8 billion and has since gradually declined to RM43 billion. The reduction was more pronounced in the 1-month and 3-month tenors, which fell by RM2.7 billion and RM4 billion respectively, partially offset by an RM1.8 billion increase in the 1-week tenor. The SRR reduction was aimed at ensuring sufficient liquidity in the financial system, helping banks better manage liquidity in an environment of greater financial market volatility and sustain financial intermediation.

Rates in the unsecured and secured interbank markets remained stable from March to mid-May 2025 before declining gradually as interbank liquidity conditions eased post-SRR cut in May, and expectations of a lower OPR gained traction. The benchmark 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) followed a similar trend, with the spread between 3-month KLIBOR and OPR gradually narrowing to 47 bps, down from 73 bps at the end of 2024 (2015–19 average: 44 bps). Trading activity in the interbank markets remained robust, with term unsecured volume increasing to RM213.7 billion in the first half of 2025 (1H 2024: RM142.7 billion), driven by an increase in intragroup transactions, which amounted to RM59.3 billion during the period in review (March to September 2024: RM7.8 billion). In contrast, secured lending volumes fell by 14% year-on-year to RM114.5 billion over the same period. This is driven by lower trading activity in the 3-month tenor, which decreased to RM51.4 billion (1H 2024: RM77.6 billion) on lower demand for term secured borrowings. BNM continues to closely monitor liquidity conditions, with a primary focus of maintaining adequate domestic liquidity to support efficient intermediation in the interbank money markets. As in the past, BNM stands ready to provide liquidity via the reverse repo facility at appropriate market rates.

Between March and September 2025, the ringgit strengthened by 6.1% against the US dollar to 4.2070. The ringgit's positive performance was largely driven by global developments, including broad-based weakening of the US dollar amid concerns over fiscal sustainability and moderating US economic growth arising from trade uncertainties. The ringgit also strengthened against other major trading partners, as reflected in a 2.3% appreciation in the Nominal Effective Exchange Rate (NEER). During the same period, the average 1-month USDMYR implied volatility rose to 6.1% (2024: 4.6%). This trend was in line with other peers, with the average regional currency volatility rising to 7.1% during the period (2024: 5.9%). Despite the higher volatility, the FX market remained conducive for financial intermediation, with average daily onshore trading volume rising to USD19.2 billion (2024: USD17.6 billion). In the near term, ringgit movements will continue to be mainly influenced by external developments, including the trajectory of global economic growth and the monetary policy path of the US Federal Reserve. Nonetheless, greater clarity over Malaysia's trade agreement with major trading partners and commitment towards ongoing structural reforms are expected to provide underlying support to the ringgit. BNM continues to monitor global developments and stands ready to manage excessive volatility in the onshore FX market.

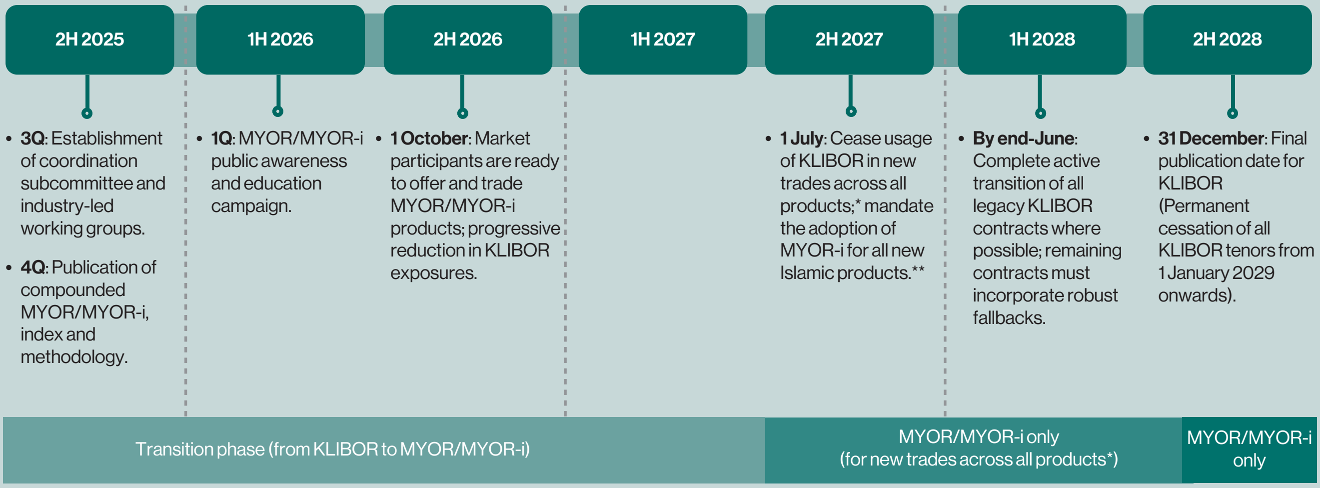
Looking ahead for the remainder of 2025, Malaysia's financial markets are expected to be influenced by external developments. Key factors include the uncertainty over the impact of US policy on inflation and global trade, the pace of monetary policy easing in advanced economies, particularly by the US Federal Reserve, and growth momentum in major economies. These external factors, along with any escalation in trade and geopolitical tensions, could reintroduce volatility across both global and domestic financial markets. Nonetheless, Malaysia's robust banking system, deep financial markets and diversified investor base will continue to support orderly domestic market conditions.

Transition from KLIBOR to MYOR/MYOR-i

Malaysia is transitioning from the Kuala Lumpur Interbank Offered Rate (KLIBOR) to the Malaysia Overnight Rate (MYOR) and its Islamic equivalent, the Malaysia Islamic Overnight Rate (MYOR-i). The transition is in line with global financial benchmark reforms and consistent with the priorities outlined in the Financial Sector Blueprint 2022–2026[1] to ensure continuous robustness of domestic financial market benchmarks.

BNM[2] published a transition roadmap outlining key timelines and milestones to accelerate the financial industry's adoption of MYOR/MYOR-i. By end of the transition, KLIBOR will cease to exist effective 1 January 2029.

Diagram 1: Transition Roadmap to MYOR/MYOR-i



* Exception may be granted for specific products or purposes (e.g. to manage risk and unwind existing positions throughout the transition).
** BNM plans to mandate the use of MYOR-i for Islamic financial products starting from 2H 2027, following a comprehensive assessment.

Source: Bank Negara Malaysia

Snapshot: Domestic Financial Benchmarks in Malaysia

KLIBOR, introduced in June 1987, has long served as a key financial benchmark for the Malaysian financial market. KLIBOR is 'submission-based'. It represents the rates at which KLIBOR-submitting banks are willing to lend ringgit funds for specific tenors to other KLIBOR submitters.[3] To determine the appropriate submitted rates, KLIBOR submitters would typically rely on the rates of their own concluded transactions. In the absence of such transactions, submitters would fall back to other data points such as their executable bids and offers, and expert judgment. Given this, the robustness of the benchmark rate is significantly reliant on the volume of underlying transactions.[4]

BNM introduced MYOR in 2021, followed by MYOR-i in 2022, to serve as alternative reference rates (ARRs)[5] for Malaysia. Unlike KLIBOR, MYOR and MYOR-i are transaction-based benchmark rates derived from actual transactions conducted in the overnight unsecured interbank money markets, which are highly active and liquid. These rates run in parallel with KLIBOR under a multiple-rate approach, with periodic reviews undertaken to ensure that Malaysia's financial benchmark rates remain robust and reflective of active underlying market conditions.

1 The Financial Sector Blueprint 2022–2026 outlines measures to strengthen the vibrancy and resilience of financial markets to act as an absorber of risk, which includes enhancing the integrity and reliability of Malaysia's financial benchmark rates by undertaking periodic reviews on the robustness of financial benchmarks.
2 In consultation with Financial Markets Committee (FMC) as the Steering Committee for KLIBOR Transition.
3 Currently, there are 11 KLIBOR submitters. KLIBOR is published for the 1-, 3- and 6-month tenors, following the discontinuation of the 2-, 9- and 12-month tenors.
4 Unsecured interbank borrowing and lending; and negotiable instruments of deposits (NIDs).
5 Alternative Reference Rates (ARRs) are robust financial benchmarks, developed typically based on actual market transactions, ensuring transparency and reliability, and are expected to adhere to the IOSCO Principles for Financial Benchmarks (2013), which set global standards for benchmark governance, methodology and data integrity.

Table 1: Comparison of Features between KLIBOR and MYOR/MYOR-i

	KLIBOR	MYOR/MYOR-i
How is it calculated?	'Submission-based' Based on the trimmed average rate* submitted by KLIBOR submitters following a hierarchical order: (a) own concluded arm's-length transactions in the underlying or related markets (b) own firm (executable) bids and offers (c) expert judgment	'Transaction-based' Volume-weighted average rate of unsecured overnight MYR interbank transactions
What is the tenor?	1, 3 and 6 months	Overnight

* Trimmed average rate is derived by eliminating the highest and lowest rates and averaging the remaining nine rates submitted by KLIBOR submitters.

Source: Bank Negara Malaysia

The transition to MYOR/MYOR-i is a proactive forward-looking initiative to ensure continuous robustness of domestic financial benchmarks

The previously adopted multiple-rate approach, where MYOR/MYOR-i coexisted with KLIBOR, was intended to allow market participants to choose the most suitable reference rate for their needs. However, several key observations have emerged that prompted a reassessment of this approach. In recent years, the proportion of term tenors in the interbank volume underpinning KLIBOR submissions has declined, driven by a change in market preference for the overnight tenor. This trend reflected evolving liquidity management practices in response to shifting market dynamics amid heightened global uncertainties. The overnight tenor now accounts for 62% of the volume in the underlying and related markets for KLIBOR. This leads to increased reliance on non-transaction-based inputs, which may not be reflective of actual market prices.

In addition, anecdotal feedback suggests potential risk of KLIBOR submitters withdrawal should the KLIBOR setting framework be reviewed, in light of anticipated implementation of stricter requirements by their foreign parent banks. Such developments may further affect the reliability and robustness of KLIBOR.

As such, the transition to MYOR/MYOR-i serves as a pre-emptive measure to safeguard the integrity and robustness of Malaysia's domestic financial benchmark.[6]

Table 2: Average Daily Trading Volume of Interbank Activities, Namely Unsecured Borrowing and Lending and NID, Underpinning KLIBOR Submissions (RM million)

Year	Overnight	1-month	3-month	6-month	Others*	Total
2020	2,882	436	420	308	2,628	6,676
2024	5,998	414	348	249	2,597	9,607

* Include odd-tenor transactions that do not fall exactly on fixed terms such as overnight, 1-month, 3-month and 6-month

Note: Data as at 31 December 2024

Source: Bank Negara Malaysia

6 KLIBOR exposures stood at RM1.5 trillion as of March 2025, with 89% concentrated in derivatives such as interest rate swaps and cross currency swaps. The remaining 11% comprises of cash products, including non-retail loans, interbank unsecured borrowing and lending and floating-rate securities (source: survey conducted among Financial Markets Association of Malaysia (FMAM) members).

Globally, there have been broad moves towards robust financial benchmarks anchored in deep and liquid markets

Based on the publication by the Financial Stability Board (FSB)[7] 'Reforming Major Interest Rate Benchmarks', the lack of sustainable liquidity in the interbank unsecured funding markets may undermine confidence in the reliability and robustness of the benchmarks derived from these markets. Uncertainty surrounding the integrity of the benchmark rate represents a potentially serious source of vulnerability and systemic risk.[8] Against this background, most jurisdictions have undertaken comprehensive reviews of respective benchmarks to ensure they remain robust and appropriately used by market participants. Following these reviews, several jurisdictions[9] have decided to cease their domestic IBOR (or equivalent rates) and transition towards a single-rate approach anchored on ARR to enhance the benchmark reliability. Other jurisdictions, while maintaining a multiple-rate approach, have reviewed and strengthened calculation methodologies of the benchmark rates to ensure continued robustness. Concurrently, efforts have been made to promote the adoption of ARR-based products and to ensure robust fallbacks[10] are in place in the event of potential domestic IBOR (or equivalent rates) cessation.

Domestic market consultation indicates broad support for transition to MYOR/MYOR-i and cessation of KLIBOR

In September 2024, BNM released a Discussion Paper to solicit public input on the proposed transition to MYOR/MYOR-i and cessation of KLIBOR.[11] The Discussion Paper attracted responses from a broad spectrum of market participants.[12] A majority (93%) of respondents expressed support for the transition, citing alignment with international standards and the robustness of MYOR/MYOR-i. The feedback gathered also served to inform the development of the transition roadmap. The continued availability of KLIBOR was also observed as a factor contributing to the slower adoption of MYOR/MYOR-i, with MYOR/MYOR-i-based financial products remaining largely underdeveloped despite efforts to promote them.

Ensuring a coordinated and orderly transition

The transition to MYOR/MYOR-i entails migrating all existing KLIBOR-based financial contracts to MYOR/MYOR-i. This transition is significant for both banks and non-banks with KLIBOR-based financial products as well as users of the benchmark rate. For example, market participants with exposure to KLIBOR-based derivatives and floating-rate notes will need to adapt to changes in pricing and risk management[13] as they transition to MYOR/MYOR-i. Meanwhile, borrowers, specifically individuals and businesses with existing KLIBOR-linked loans or financial products – which account for 3.2% of total outstanding loans,[14] may experience some interest rate and profit rate adjustments, affecting their repayment obligations. The actual adjustments on interest rate and profit rate faced by financial consumers depend on the margin spread over MYOR/MYOR-i, which may vary based on type of financial products.[15]

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7 The FSB is an international body that promotes international financial stability by monitoring and making recommendations about the global financial system.
8 Thus far, there have been no notable concerns regarding the integrity of KLIBOR.
9 As of August 2025, information from the central banks' websites indicates that the United States, the United Kingdom and Singapore have successfully transitioned to the more robust ARRs and ceased their respective IBORs. Meanwhile, Indonesia and Thailand are currently in the process of transitioning.
10 Fallback language refers to the contractual provisions that outline the process for determining an ARR in the event that a benchmark becomes unavailable.
11 For more information, please refer to the discussion paper (https://www.bnm.gov.my/-/dp-myor).
12 A total of 57 responses were received encompassing banks, development financial institutions, insurance companies, asset managers, corporates and other financial market participants.
13 One of the key changes in risk management involves the credit risk component. MYOR/MYOR-i is generally considered nearly free of credit risk due to its short tenor (i.e. overnight). In contrast, KLIBOR incorporates interbank credit risk as it is based on unsecured interbank borrowing and lending, as well as NIDs.
14 Data as of 31 December 2024.
15 Either based on industry recommendations or bilaterally agreed between the relevant counterparties. Based on developments in other jurisdictions, the conversion of existing KLIBOR-based loans to MYOR/MYOR-i may include the following components, such as compounded MYOR/MYOR-i, existing KLIBOR margin and an adjustment spread which accounts for the difference between KLIBOR and compounded MYOR/MYOR-i. More details will be announced during the transition period.

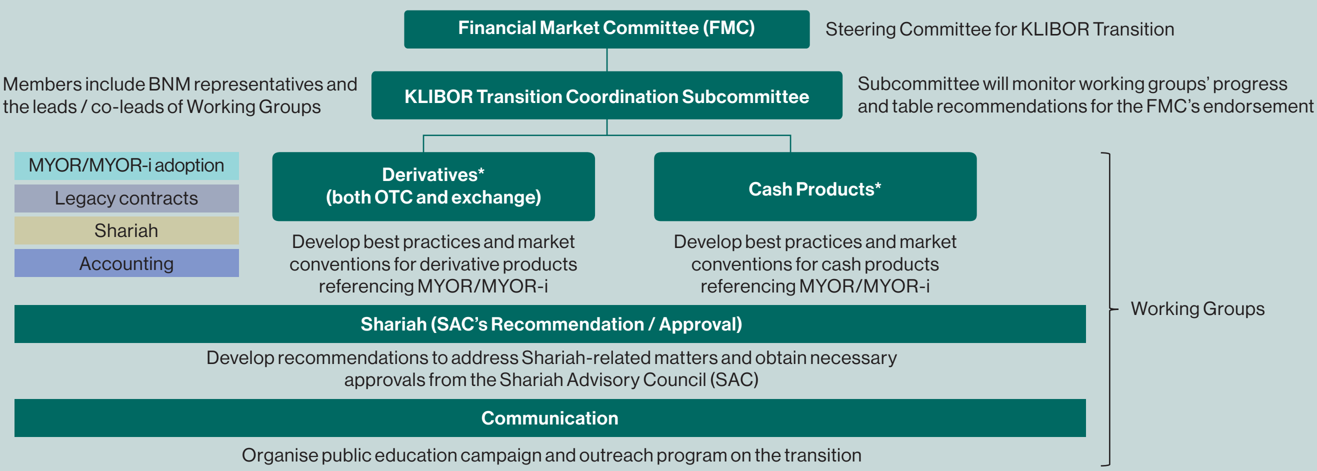
Legacy contract management, system readiness and stakeholder communication are among the key areas that warrant attention. Therefore, it will be critical for market participants and users of benchmark rates to ensure that their preparations for the transition commensurate with the scale and complexity of their operations and exposures. These include the following:

i. establishing internal governance arrangements to oversee the transition of operational functions and business lines to MYOR/MYOR-i;
ii. reviewing and updating contracts to ensure alignment with the transition from KLIBOR to MYOR/MYOR-i;
iii. enhancing treasury and loan systems to ensure seamless integration to new calculations and reporting requirements; and
iv. ensuring sufficient resources for staff training and customer engagement to promote awareness.

To facilitate an orderly industry transition, BNM has also collaborated with key industry players to implement a series of initiatives. These efforts will be overseen and coordinated by the KLIBOR Transition Coordination Subcommittee, along with four Working Groups, established under the FMC:

i. recommending best practices, market conventions, and legacy management approaches for the industry through market consultations;
ii. creating a dedicated transition page to disseminate updates and educational material on the transition to promote awareness; and
iii. publishing compounded MYOR/MYOR-i and indices to serve as a standardised reference for market participants to support MYOR/MYOR-i adoption.

Diagram 2: Structure of KLIBOR Transition Coordination Subcommittee and Working Groups



* Working Groups will cover both wholesale and retail (consumer) products.
Source: Bank Negara Malaysia

Concurrent efforts to support MYOR-i transition in the Islamic Financial market

For the Islamic financial market and system, Malaysia is promoting the adoption of MYOR-i to strengthen the Islamic financial ecosystem. The availability of a Shariah compliant benchmark rate would enhance the resilience of the Islamic finance infrastructure, providing an end-to-end solution for Islamic institutions. To accelerate industry-wide adoption of MYOR-i, BNM plans to move forward with the mandatory adoption of MYOR-i starting from 1 July 2027. MYOR-i will become the standard reference rate for Islamic financial products.[16] This is not just a technical adjustment; it marks a structural transformation in our Islamic financial landscape. As the world's first transaction-based Islamic benchmark rate, MYOR-i brings transparency, consistency, and Shariah alignment to the heart of Islamic finance.

To ensure a smooth transition, BNM, along with key Islamic industry players and associations, would focus on these key areas:

i. promoting active interbank activity to support continuous reliability of MYOR-i;
ii. broadening market participation among Islamic financial institutions and corporate issuers among others;
iii. enhancing hedging capabilities in the Islamic derivatives market to support effective risk management for MYOR-i-linked products; and
iv. promoting diversification of MYOR-i based financial instruments such as Islamic profit rate swaps, Islamic cross currency swaps and pricing of mortgages.

Moving forward, BNM, in collaboration with the FMC, will provide regular updates to market participants on the progress of the transition.

Reference

Financial Stability Board (2014). Reforming Major Interest Rate Benchmark. Available at https://www.fsb.org/uploads/r_140722.pdf.

[16] The Shariah Advisory Council of BNM (SAC) has ruled that MYOR-i and its calculation methodology under both normal and contingency situations are Shariah-compliant as it includes only Shariah-compliant transactions. SAC also allows, on a hajah basis, for Islamic financial institutions to temporarily reference conventional term rates such as KLIBOR or other conventional term reference rates in the absence of a reliable Islamic term reference rate. Refer to 'SAC Ruling on the New Islamic Reference Rate i.e. Malaysia Islamic Overnight Rate (MYOR-i)' for further details. Available at https://www.bnm.gov.my/-/bnm-sac-218th-mtg-ruling

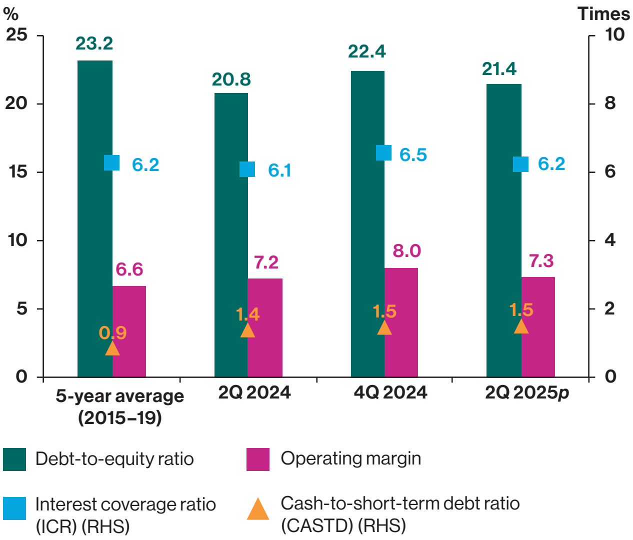
CREDIT RISK

Businesses remained resilient in navigating uncertainties

Business operations remained resilient in the first half of 2025, despite headwinds from global trade uncertainties, geopolitical developments and persistent cost pressures. Robust domestic demand amid positive labour market conditions and the steady expansion of investment activities continued to support businesses during this period. Front-loading activities amid tariff-related uncertainties, particularly in the electrical and electronics (E&E) subsector, helped sustain the performance of export-oriented firms. Firms in the construction sector continued to benefit from robust growth in industrial and housing projects as well as progress of multi-year infrastructure projects. Revenues of firms in the services sector were bolstered by improvements in consumer spending and tourism activity. Collectively, these developments supported firms' revenue and hence, the debt-servicing ability of businesses. This was reflected in the median interest coverage ratio (ICR),[3] which stood at 6.2 times (Chart 1.4). The overall share of firms-at-risk[4] remained broadly stable at 24.4% (Chart 1.5).

Nevertheless, ongoing cost pressures continued to weigh on firms' profit margins. The median cost of goods sold (COGS) ratio[5] edged higher to 75.4% (December 2024: 74.9%; 2015–19 average: 75.9%). Firms in the hotels and restaurants, wholesale and retail trade, construction and manufacturing sectors were confronted with higher labour and material costs. As a result, the share of firms-at-risk in these sectors remained elevated relative to long-term averages. Looking ahead, firms are expected to continue facing cost pressures in the second half of the year as the impact from the rollout of domestic policies, such as the expanded scope of sales and service tax (SST),[6] electricity and water tariff restructuring, and the enforcement of mandatory Employees Provident Fund (EPF) contributions for foreign workers, takes effect. The impact of these policies will vary across firms depending on their size, sector, cost structure and ability to pass on higher costs. To navigate these pressures, firms are implementing various strategies to mitigate the impact on their bottom line. Additionally, the moderation in input costs, supported by a decline in the Producer Price Index and softer global commodity prices, should help alleviate some of the domestic cost pressures. These factors, along with healthy cash buffers (Chart 1.6), are expected to continue supporting the debt-servicing capacity of firms.

Chart 1.4: Business Sector – Key Financial Performance Indicators



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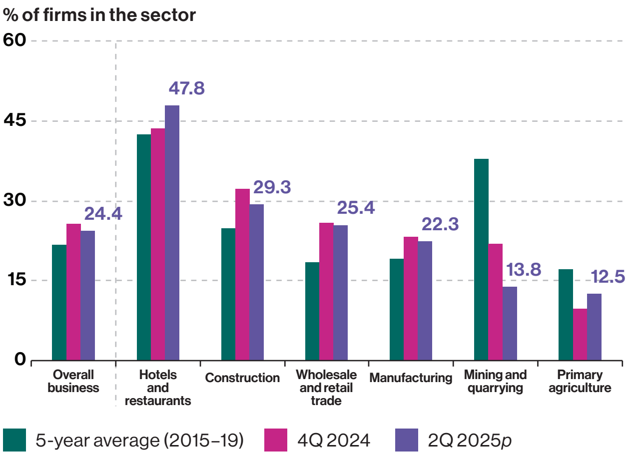
Note: Prudent thresholds for ICR and CASTD are two times and one time respectively.

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

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



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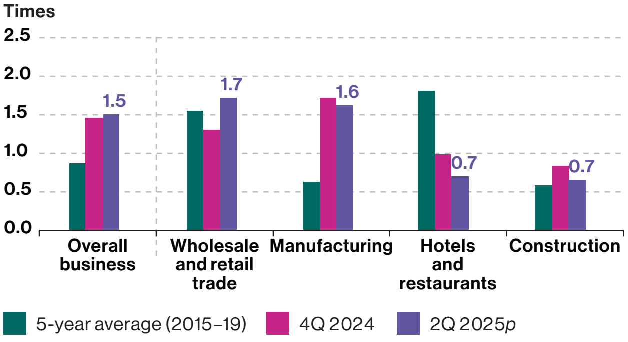
Source: S&P Capital IQ and Bank Negara Malaysia estimates

[3] Prudent threshold for ICR is two times.
[4] Firms-at-risk refers to firms with ICR below the prudent threshold of two times.
[5] 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.
[6] The expanded scope of SST includes (i) sales tax on discretionary and non-essential goods and (ii) service tax on new services such as leasing or rental, construction, financial services, private healthcare and education services.

Chart 1.6: Business Sector – Cash-to-Short-term Debt for Selected Sectors



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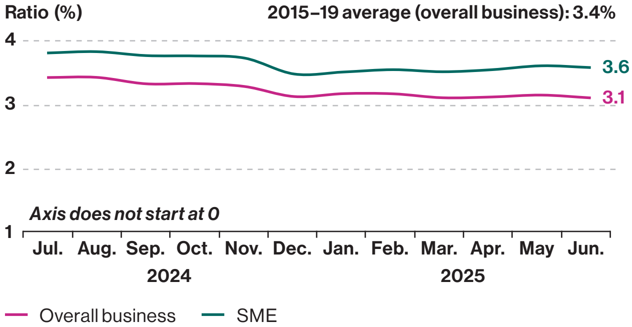
Source: S&P Capital IQ and Bank Negara Malaysia estimates

Chart 1.7: Business Sector – Gross Impaired Loans



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

Source: Bank Negara Malaysia

The overall credit quality of business loans remained intact, with the shares of impaired loans and loans with increased credit risk (Stage 2 loans) remaining unchanged at 3.1% and 11.9% respectively. The immediate impact of the US reciprocal tariffs on credit quality was limited, as key export products such as semiconductors were exempted and a lower tariff rate of 10% was applied to non-exempt items amid trade negotiations between April and July 2025. Affected firms, primarily those in the manufacturing sector with sizeable export exposure to the US also benefitted from front-loading activities and took pre-emptive measures ahead of the anticipated tariff rate increases. These measures included securing orders, building up inventory and negotiating cost-sharing arrangements with clients. Repayment trends for borrowings held by firms in this segment have trended in line with those observed for overall business loans. Loan impairments for these borrowings remained stable and lower than those for overall business loans at 2.4%. Generally, credit quality among larger corporates improved, supported by sustained economic growth and stronger financial positions compared to pre-pandemic levels. Larger businesses were also able to navigate headwinds by factoring domestic policy changes into their business plans ahead of implementation dates and re-negotiating contracts to minimise trade disruptions.

A small segment of small and medium enterprises (SMEs), on the other hand, continued to exhibit signs of repayment challenges, with the impairment ratio for SMEs edging slightly higher to 3.6% of total SME loans (Chart 1.7). However, no new pockets of vulnerability were observed, as repayment challenges remained confined to borrowers with pre-existing weaknesses in selected sectors such as manufacturing, construction, and wholesale and retail trade. Insights from BNM's engagements with businesses revealed that some SMEs were drawing down on cash reserves to manage rising cost and tightening cashflows due to delays in collections and shorter payment terms. Some SMEs also reported lower revenue and smaller profit margins amid stiff competition. Nevertheless, the continued implementation of cashflow and cost management strategies by SMEs,[7] alongside the gradual pass-through of costs, has helped support their repayment capacity and limit deterioration in the quality of borrowings within this segment. While some SME borrowers have responded to these challenges by drawing down existing credit lines, repayment conduct among these borrowers, including those with high credit line utilisation, remains broadly intact. SMEs facing financial difficulties continue to seek repayment assistance from banks and the Credit Counselling and Debt Management Agency (AKPK), though new signs of stress remain muted. The share of new SME loans under rescheduling and restructuring (R&R) programmes[8] with banks trended lower and remained small at 0.3% of total outstanding SME loans (December 2024: 0.5%). Taking into account AKPK programmes, the total share of outstanding SME borrowings under repayment assistance also trended lower to 4.1% of total SME loans (December 2024: 4.4%), or 0.7% of total banking system and development financial institution (DFI) loans.

Corporates' external borrowings increased to RM628.2 billion in the first half of the year (December 2024: RM593 billion), driven by intercompany borrowings and trade credits by multinational corporations to fund

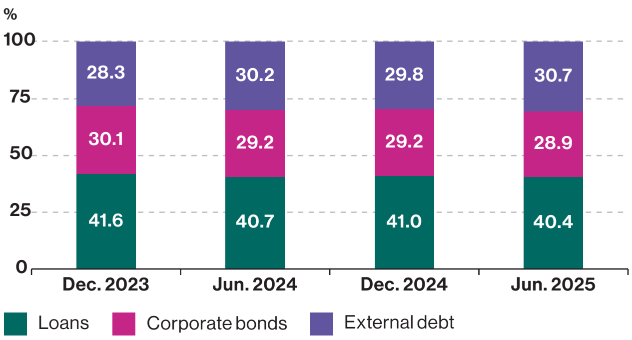
[7] Refer to the information box on 'SMEs' Strategies to Navigate an Elevated Cost Environment' in BNM's Financial Stability Review for Second Half 2024.

[8] Beginning January 2025, figures for new R&R by banks have been revised following refinements aimed at improving accuracy in capturing new repayment assistance accounts. Thus, new R&R figures may not be directly comparable to those reported in previous publications.

existing operations and support expansion plans in Malaysia. These exposures, which form around 60% of total corporate external debt, are assessed to be low-risk given their concessionary terms. Net issuance of bonds and notes abroad, mainly by resident corporations, also contributed to the higher corporate external debt. Most of the external debt exposures from large resident corporates are either naturally or financially hedged, thereby limiting the risk of currency mismatches affecting repayment capacity. Rollover risks are similarly assessed to be low given the large (70%) share of external debt with maturities exceeding one year. Corporate external debt also remained adequately covered by assets, with the external asset to debt coverage ratio at 1 time.

Financing conditions remained supportive of business needs, with businesses continuing to utilise a stable mix of funding sources (Chart 1.8). Business loans grew by 4.5% in the first half of 2025 (December 2024: 5.3%; 2017–19 average: 4.1%), reflecting continued lending activity despite ongoing global uncertainties. Although investment-related loan growth moderated, it remained above its pre-pandemic average. This was partially

Chart 1.8: Business Sector – Composition of Debt by Type



Note: Figures may not add up due to rounding.
Source: Bank Negara Malaysia

offset by stable growth in working capital loans. In addition to loan financing, large corporates continued to tap the corporate bond market amid favourable funding conditions and narrowing bond spreads for high-quality issuers. Growth in outstanding corporate bonds rose to 4.3% (December 2024: 3.4%), driven by higher issuances for various purposes. The rise in issuances for new investment activities was driven by a few large issuances from the construction and services sectors. In contrast, growth in issuances for working capital and loan repayments was underpinned by a broader base of smaller issuances. The credit quality of corporate bond issuers remained strong, with only one issuer downgraded in the first half of 2025 (2H 2024: one issuer), representing just 0.1% of total outstanding domestic corporate bonds.

Moving forward, the business operating environment is expected to remain challenging. Uncertainties surrounding external developments, particularly those related to tariffs and their materialisation, may weigh on external demand and disrupt supply chains. Nonetheless, resilient domestic demand, continued global demand for E&E goods, inbound tourism and the expansion of investment activities are expected to lend support to the business outlook. While the implementation of domestic policy measures could exert upward pressure on businesses' operating costs, the impact is expected to be partly offset by moderating input prices amid contained global cost conditions and firms' proactive cost management strategies. Banks and AKPK remain committed to supporting businesses through tailored repayment assistance programmes, helping them navigate the challenging operating environment. Debt resolution mechanisms such as the Small Debt Resolution Scheme (SDRS), Corporate Debt Restructuring Committee (CDRC) and court-sanctioned corporate rescue mechanisms also remain available to provide restructuring options for distressed but viable firms.

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

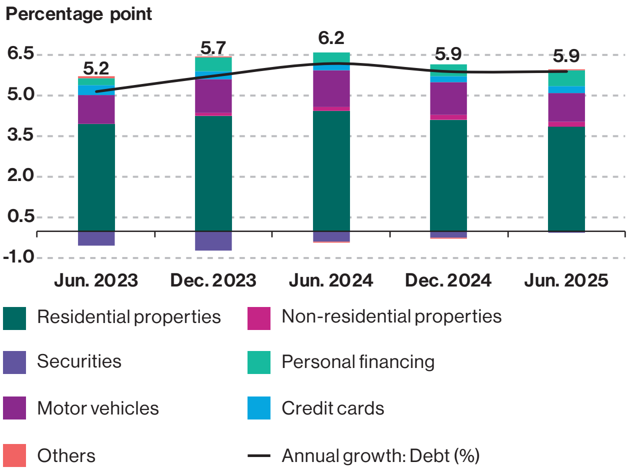
As at the end of June 2025, the stock of household debt expanded at a stable annual pace of 5.9% (Chart 1.9), edging slightly higher than the long-term average (2015–19 average: 5.6%). The expansion in household debt continued to be primarily driven by housing and car loans, which collectively accounted for 75% of total household debt (December 2024: 74.6%). Housing loans grew in line with improving labour market conditions, supported by sustained housing demand amid ongoing government initiatives to promote homeownership, particularly among first-time home buyers (see Information Box on 'Developments in the Residential Property Market'). Car financing growth moderated slightly amid slower demand for passenger cars in the first half of 2025. Meanwhile, outstanding credit card debt and personal financing loans recorded higher year-on-year growth of 9.2% and 4.7% respectively (December 2024: 8% and 3.5%). However, the contribution of these consumption-driven credit to overall household debt growth remains modest, with their share to total household debt continuing to trend downwards to 15.2% (December 2024: 15.3%; December 2019: 16.8%) (Chart 1.10).

The higher growth in outstanding credit card balances since the post-pandemic period reflects the recovery in economic activity and a greater preference for using payment cards as a payment instrument, rather than an indication of higher debt accumulation.[9] A more appropriate indicator to assess signs of financial distress is the trend in credit card revolving balances[10] which provides a clearer signal of cashflow pressures faced by borrowers. The share of revolving balances out of total outstanding credit card balances edged up slightly to 48.9% but remains lower than its long-term average (December 2024: 47.7%; 2015–19 average: 60.6%). A deeper assessment on the group of credit card revolvers indicates that incidences of missed repayments (two months-in-arrears or more) across all their loan exposures (including non-credit card loans) remained manageable at 0.9% of their total debt value (December 2024: 0.9%).

[9] The end-month outstanding credit card balance tends to increase as credit cards are increasingly used for payment transactions. This reflects the timing of data capture, which may record balances before repayments are made, even when cardholders consistently pay off their balances in full within the billing cycle.

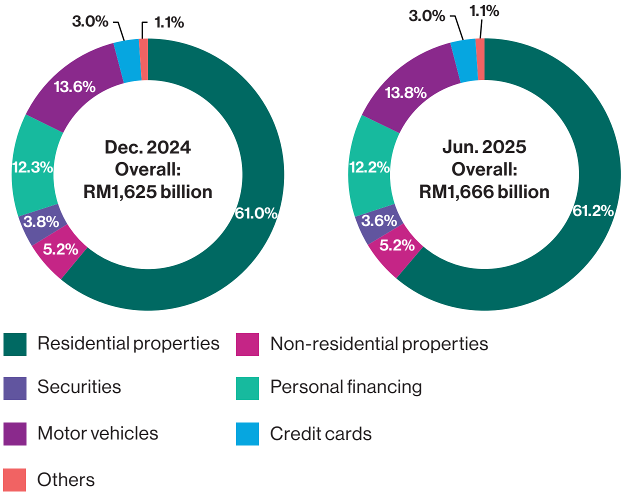
[10] Refers to credit card outstanding balances that remain unpaid by the due date and are carried forward to the next billing cycle.

Chart 1.9: Household Sector – Annual Growth of Debt



Source: Bank Negara Malaysia

Chart 1.10: Household Sector – Composition of Debt by Purpose

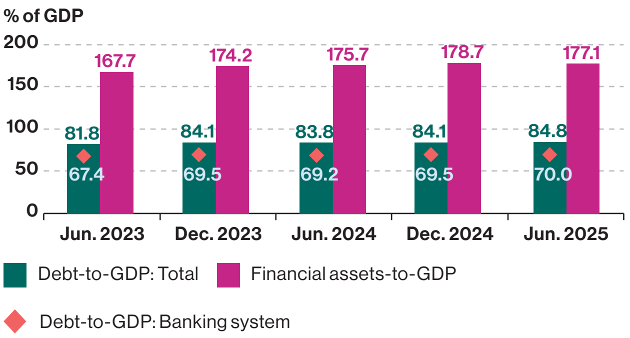


Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Despite stable household debt growth, the aggregate household debt-to-GDP and banking system household debt-to-GDP ratios rose marginally to 84.8% and 70% respectively (Chart 1.11). While debt ratios remain elevated at the aggregate level, prudent underwriting standards and loan affordability assessments by banks continue to ensure that borrowers can sustainably service their debt obligations. Household debt growth remains consistent with borrowers' annual income levels, as evidenced by the stable median debt-to-income ratio of 1.4 times (December 2024: 1.4 times). Other measures of debt-servicing capacity also indicate prudent debt management at the individual level. The median debt service ratios (DSRs) of newly approved and outstanding household loans were stable at 41% and 33% respectively (December 2024: 41% and 34%) (Chart 1.12), indicating that households can viably meet their loan obligations and monthly expenditures. Additionally, new financing extended to household borrowers deemed riskier[11] has remained limited in recent periods. The share of newly approved loans to these borrowers has decreased to 8.3% (December 2024: 9.1%). The share of outstanding household loans held by these riskier borrowers has also declined (9.1%; December 2024: 9.3%).

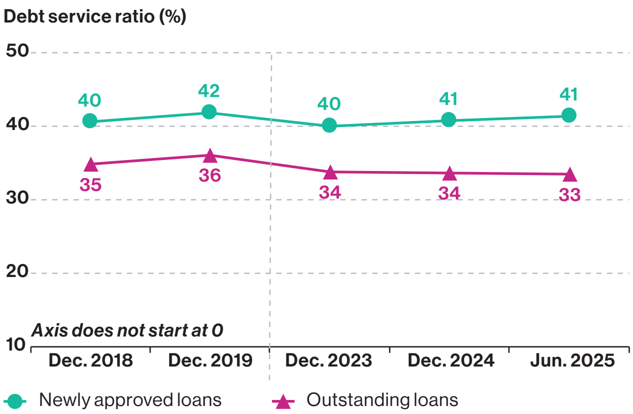
Chart 1.11: Household Sector – Key Ratios



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

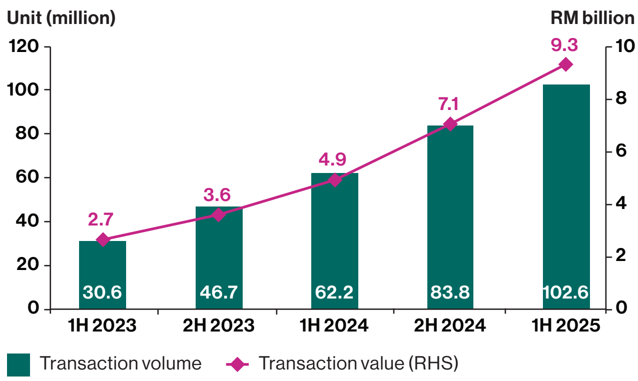
Chart 1.12: Household Sector – Median Debt Service Ratio of Borrowers with Newly Approved Loans and Outstanding Loans



Source: Bank Negara Malaysia

The continued expansion of buy now pay later (BNPL)[12] schemes remains a focus of surveillance for BNM. In the first half of 2025, the total volume and value of BNPL transactions increased to 102.6 million and RM9.3 billion respectively (2H 2024: 83.8 million transactions and RM7.1 billion) (Chart 1.13). Correspondingly, total outstanding BNPL debt increased to RM3.8 billion as at end-June 2025 (December 2024: RM2.8 billion). Growth in the BNPL segment appears to be primarily driven by a sharp expansion in active[13] BNPL users. This is evidenced by the rise in active BNPL accounts, which grew to 6.5 million as at end-June 2025 (December 2024: 5.1 million). The share of overdue[14] BNPL debt increased to 3.2% of total outstanding BNPL debt (December 2024: 2.9%), although it remains below the levels observed during the early stages of the segment's emergence (March 2023: 6.0%). While total outstanding BNPL debt represents only 0.2% of total household debt, the segment's rapid growth warrants close monitoring. In this regard, the Consumer Credit Commission, once established, will regulate and supervise previously unregulated non-bank credit providers and credit service providers, including BNPL providers. This is expected to augment existing regulatory and supervisory efforts, further safeguarding credit consumers.

Chart 1.13: Household Sector – BNPL Transaction Volume and Value



Note: Data refers to BNPL transactions with non-bank providers.
Source: Consumer Credit Oversight Board Task Force

Household financial assets expanded at a more moderate pace in the first half of 2025 (5.4%; December 2024: 8.7%) (Chart 1.14), due to lower valuations of domestic equity holdings and unit trust funds amid heightened volatility and dampened retail investor sentiment in the equity

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

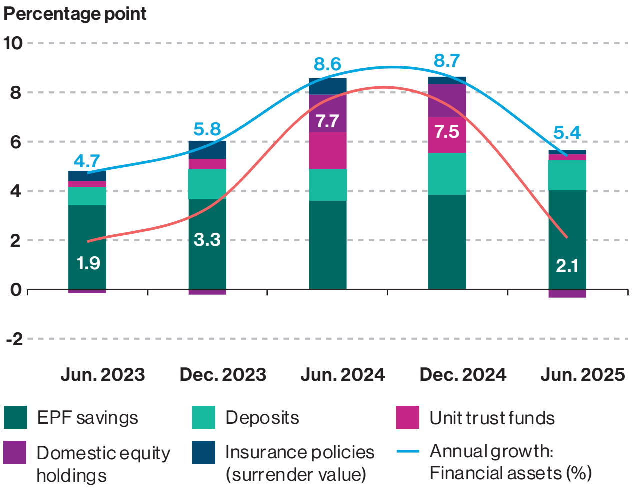
[12] All BNPL figures refer to transactions made by users of non-bank BNPL providers only.
[13] Refers to BNPL accountholders with at least one BNPL transaction in the past 12 months. A credit consumer may own multiple BNPL accounts with different providers.
[14] Refers to BNPL accounts with one or more days past due.

market. Meanwhile, household financial asset growth continued to be driven by savings held in deposits and contributions to the Employees Provident Fund (EPF). These two components collectively accounted for 68.4% (December 2024: 67.6%) of household financial assets. Overall, household balance sheets remain robust on aggregate. The total value of household financial assets continued to remain at 2.1 times higher than household debt, providing households with ample buffers against adverse shocks.

The overall quality of household borrowings remained sound, supported by healthy debt-servicing capacity and positive labour market conditions. As at end-June 2025, the household loan impairment ratio was stable at 1.1% (December 2024: 1.1%) (Chart 1.15). The share of household loan exposures under repayment assistance continued to decline (1.7% of total banking system and DFI loans; December 2024: 1.8%). Thus far, signs of emerging stress amongst household borrowers appear to be limited and isolated, with no broad-based trends in missed payments across specific income groups, employment sectors or regions.

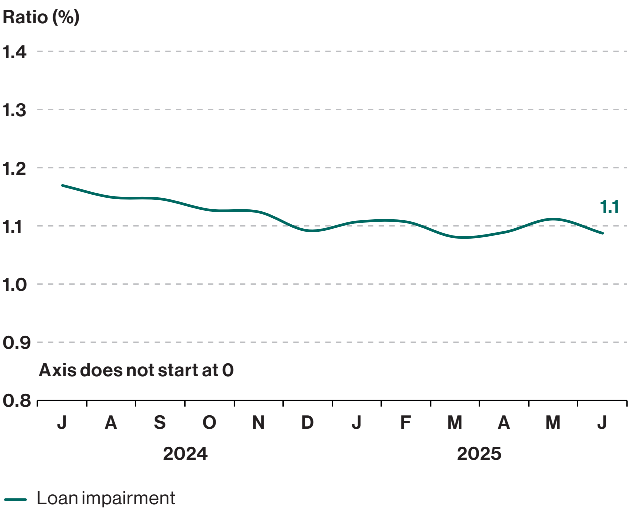
Looking ahead, household credit risk is expected to remain stable and manageable, anchored by positive labour market conditions and sound household debt-servicing capacity. Amidst cost-of-living pressures and external uncertainties, banks and AKPK continue to monitor signs of financial distress among borrowers, offering loan assistance to support those in need. The recent 25 basis points reduction in the Overnight Policy Rate (OPR), announced by BNM in July 2025, may lend some support to household debt-servicing capacity through lower monthly debt obligations. While lower borrowing costs, coupled with positive income growth, could contribute to higher debt uptake in the near term, the observed prudent lending standards by financial institutions are expected to ensure sustainable debt accumulation by households.

Chart 1.14: Household Sector – Annual Growth of Financial Assets



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

Chart 1.15: Household Sector – Loan Impairment Ratio



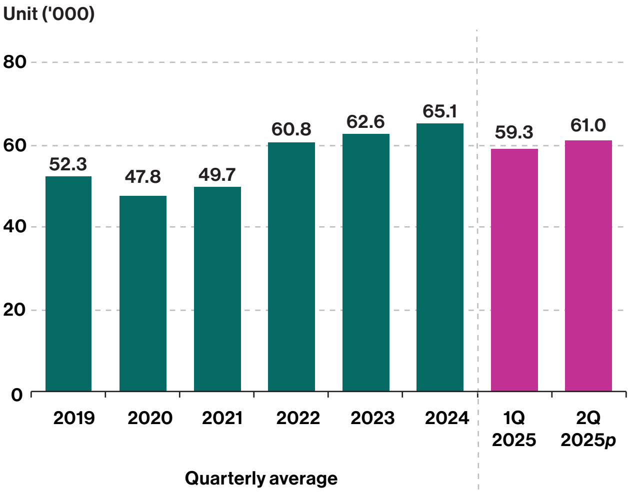
Note: Data refers to banking system and development financial institution (DFI) loans.

Source: Bank Negara Malaysia

Developments in the Residential Property Market

Housing transaction volume remained broadly above the long-term average in the first half of 2025 (Chart 1.16), supported by sustained housing demand amid improving income and employment conditions, as well as continued growth in household formation. Government initiatives to promote homeownership[15] among first-time home buyers further supported demand, particularly in the mass-market segment (houses priced RM500,000 and below), which accounted for 77.4% of total transactions during the period. Notwithstanding this, the stock of unsold housing units (Chart 1.17) edged further upwards, indicating supply-demand mismatches amid the recent strong momentum in new launches (2024*p*: 90,754 units; 2023: 66,576 units).[16] Unsold completed units also recorded a slight increase during the period (2Q 2025: 47,246 units; 4Q 2024: 45,238 units), after sustained improvements from the peak in the fourth quarter of 2021 (63,432 units).

Chart 1.16: Property Market – Housing Transaction Volume



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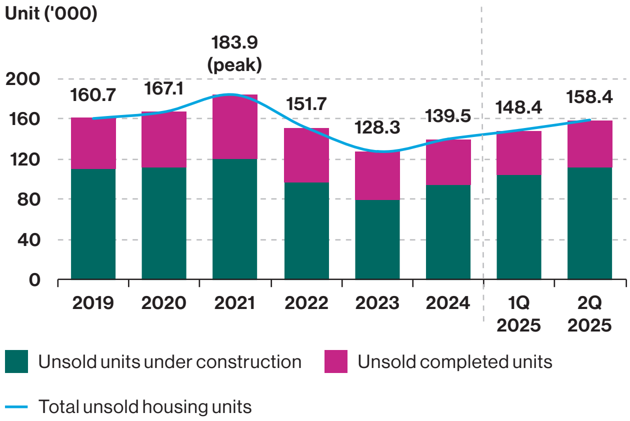
Source: National Property Information Centre (NAPIC)

Chart 1.17: Property Market – Volume of Unsold Housing Units



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

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

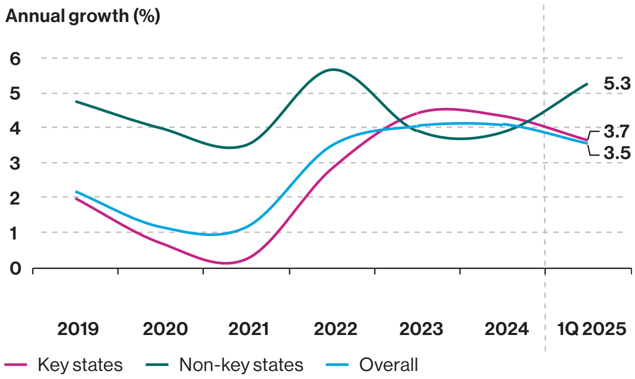
In line with market activity, overall house prices, as measured by the Malaysian House Price Index (MHPI), expanded at a moderate pace of 3.5% in the first quarter of 2025 (4Q 2024: 4.4%; 2015–19 average: 5.3%) (Chart 1.18). House prices in non-key states rose by an average of 5.3%, outpacing the 3.7% average increase in key states.[17] Growth in most key states was relatively modest, at 1.6% in Pulau Pinang, 1.7% in Kuala Lumpur and 2.4% in Selangor. Johor, however, recorded a higher expansion of 9% in the first quarter, as its property market continues to be supported by ongoing infrastructure projects such as the Johor Bahru-Singapore Rapid Transit System (RTS) Link and initiatives under the Johor-Singapore Special Economic Zone (JS-SEZ).

[15] Under the Malaysian Home Ownership Initiative (i-Miliki), first-time home buyers purchasing residential properties valued at RM500,000 and below are eligible for stamp duty exemptions until end-2025. First-time home buyers will also be 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–RM750,000) until 31 Dec 2027, as announced in Budget 2025.

[16] Excludes new launches of serviced apartments and small office, home office (SOHO). Figures for 2024 may be revised upwards in subsequent data releases.

[17] Key states refer to Johor, Kuala Lumpur, Pulau Pinang and Selangor.

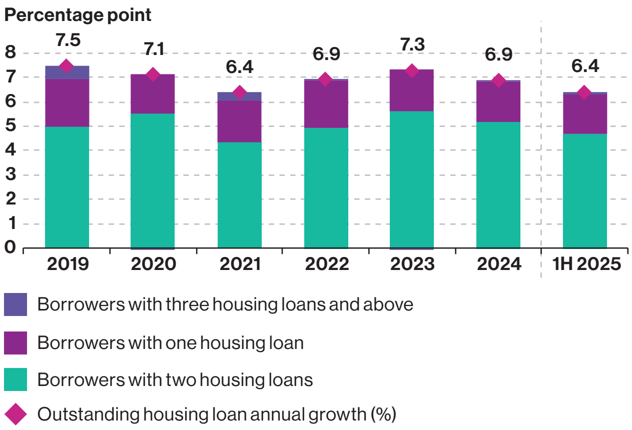
Chart 1.18: Property Market – Malaysian House Price Index (MHPI) Growth by State



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

Financing activity for the purchase of residential properties remained robust in the first half of 2025, with both loan applications and approvals edging higher compared to the same period in 2024. Against this backdrop, housing loan approval rates remained stable, supporting access to financing, especially for first-time home buyers. As at end-June 2025, outstanding housing loans grew by 6.4% (December 2024: 6.9%) (Chart 1.19), driven predominantly by owner-occupiers (proxied by individual borrowers with one housing loan) who accounted for nearly three-quarters of the increase in outstanding housing loans over the past year. The median loan-to-value (LTV) ratio of overall outstanding housing loans remained prudent at 70.2% (December 2024: 69.7%), providing ample buffers for banks and borrowers in the event of a house price correction. Nonetheless, given current economic conditions and stability in the property market, risks of a broad-based, sharp and sudden correction in house prices remain low.

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



Source: Bank Negara Malaysia

The credit quality of housing loans remained stable across all borrower segments. The overall housing loan impairment ratio improved slightly to 1.1% (December 2024: 1.2%). Risks associated with credit-fuelled investment activity also remained contained. Borrowers with two or more housing loans grew by only 2.3% year-on-year (December 2024: 2.2%) and continued to contribute modestly to outstanding housing loan growth. The impairment ratio of housing loans held by these borrowers remained steady at 0.9% (December 2024: 0.9%).

The Malaysian residential property sector is expected to remain broadly steady in the near term. Accordingly, risks to financial stability arising from the sector are assessed to remain low, underpinned by healthy debt-servicing capacity among borrowers alongside sound underwriting practices by banks.

OPERATIONAL RISK

The financial sector remained operationally resilient amid an evolving risk landscape

Financial losses arising from operational risks reported by financial institutions remained low, accounting for just 0.04% of total banking system capital (2H 2024: 0.03%; 1H 2024: 0.05%). At the same time, financial institutions continued to demonstrate operational resilience and were able to provide reliable and efficient essential financial services to customers. Notably, incidents involving technological failures and severe prolonged disruptions of online services to the public declined by 38% during the period. This improvement reflects the additional efforts taken and investments made by financial institutions to strengthen their operational resilience to meet service availability standards expected by financial consumers. Nevertheless, continued efforts are important not only to maintain the availability and resilience of financial institutions' critical systems, but also to improve customer experience, including when certain financial services are unavailable or temporarily interrupted. Priorities include enhancing online service reliability and fostering a more customer-focused approach of managing service interruptions, with effective and timely communication to affected customers to minimise inconvenience.

While the number of reported cyber incidents increased in the first half of 2025, most were of minimal to low severity. The increase in reported cases partly reflects improvements in the comprehensiveness of cyber incident reporting by financial institutions, supported by ongoing awareness and knowledge-sharing efforts by BNM. Notably, no ransomware incidents were reported during the period. Amid persistent cyber threats, financial institutions continue to progressively enhance their cyber vigilance and response capabilities. This is reflected in financial institutions' enhanced capabilities in threat surveillance, detection, response and recovery functions, which have enabled more effective containment and management of cyber threats with minimal operational disruptions.

In response to the rising trend of reported cyber incidents and to further strengthen financial institutions' capabilities in managing emerging cyber risks across the sector, BNM conducted a focused review of financial institutions' Application Programming Interface (API) security management practices. The review revealed a high level of readiness across the financial sector, with widespread adoption of best practices in managing API-related security risks, particularly in areas such as development standards, security testing and assessment, and API authentication and access controls. However, governance in API management and the implementation of automated security controls were identified as key areas requiring further improvement by financial institutions.

While the industry's refined fraud countermeasures have curbed unauthorised scam cases,[18] the first half of 2025 saw a rise in authorised fraud schemes, driven by social engineering and manipulation tactics. These schemes often exploit customer trust and circumvent security controls. To strengthen defences against such threats, BNM and the financial industry stepped up customer education and awareness programmes. BNM also introduced enhanced fraud countermeasures to strengthen the fraud defence systems of financial institutions. Key expectations from these standards include:

- establishment of detailed risk profiles for each customer through behavioural analysis to enhance fraud detection;
- real-time detection and blocking of suspicious or fraudulent transactions;
- swift investigation and verification upon blocking;
- prompt detection and termination of hijacked sessions;[19] and
- continuous update and enhancement of fraud detection rules.

Safeguarding customer trust and the integrity of the banking system remains a priority for BNM. The National Fraud Portal (NFP), a key platform used by the National Scam Response Centre (NSRC) to trace stolen funds, will be enhanced with advanced analytical capabilities to enable early detection of mule accounts and suspicious transactions. This marks a significant step forward in the industry's shift towards proactive fraud prevention and, equally important, in minimising monetary losses to victims.

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[18] An unauthorised transaction refers to a payment transaction that is not consented, initiated or authorised by the customer. This excludes transactions where the victim has willingly performed and approved the payment at the point of the transaction (e.g. love scam, investment scam and parcel scam).

[19] A hijacked session occurs when a fraudster takes control of a user's active online session.

Complementing these efforts are ongoing scam awareness and educational campaigns, jointly organised by public and private sector partners, aimed at empowering consumers to become more discerning and vigilant, particularly as authorised fraud schemes become increasingly prevalent. BNM continues to uphold the policy on Ensuring Fair Treatment for Victims of Unauthorised e-Banking Transactions, introduced in 2024. This policy reinforces consistent and fair outcomes for scam victims by requiring financial institutions to conduct timely, transparent investigations and offer fair compensation, including independent reviews where appropriate.

Following the conclusion of the public consultation on the Exposure Draft for Risk Management in Technology (RMiT) in February 2025, BNM will be issuing the finalised RMiT policy document in the final quarter of 2025. In response to the growing pervasiveness of digital services, the updated policy outlines new expectations for financial institutions to build service resilience. These include step-up service availability goals – particularly for banks with high volumes of retail transactions – to meet higher customer expectations, proactive management of intermittent performance issues, enhanced coordination with third-party service providers for effective incident response, and establishment of communication protocols to keep customers informed and supported during disruptions.

The updated policy also augments cyber defence requirements in line with global best practices, including the adoption of continuous control monitoring to mitigate third-party risks. The unified information technology (IT) risk management policy requirements will also be extended to large merchant acquirers and intermediary remittance institutions, based on specified thresholds, aimed at fortifying the security of the payment services ecosystem as a whole. In tandem, the regulatory review process will be simplified and streamlined to accelerate the deployment of mature technologies and facilitate the assessment of emerging technologies such as cloud computing.

Payment and settlement systems remained reliable and secure

The Real-time Electronic Transfer of Funds and Securities System (RENTAS) and major retail payment systems (RPS)[20] remained resilient, maintaining a high level of system availability throughout the first half of 2025. No major operational or cyber incidents were observed during this period. However, an isolated incident due to a third-party service's global outage temporarily disrupted connection to RENTAS. The issue was promptly addressed following the successful and timely activation of the third-party service's alternate site.

As part of ongoing supervisory efforts to strengthen the stability and resiliency of key payment infrastructure, BNM conducted a supervisory examination of the Real-time Retail Payments Platform (RPP) operated by PayNet. Efforts are ongoing to further improve the overall resiliency and security of the RPP, particularly in business continuity management as well as management of critical service providers, participants and cross-border services. As regional cross-border Quick Response (QR) payment connectivity broadens and grows, BNM will continue to enhance the oversight of cross-border payment arrangements through collaborative efforts with relevant regulatory authorities.

[20] Real-time Retail Payments Platform (RPP), Interbank GIRO (IBG), National Electronic Cheque Information Clearing System (eSPICK), Financial Process Exchange (FPX), Shared ATM Network (SAN), Direct Debit (DD), MyDebit, National Electronic Bill Payment (JomPAY) and Instant Transfer (IBFT).

Financial Institution Soundness and Resilience

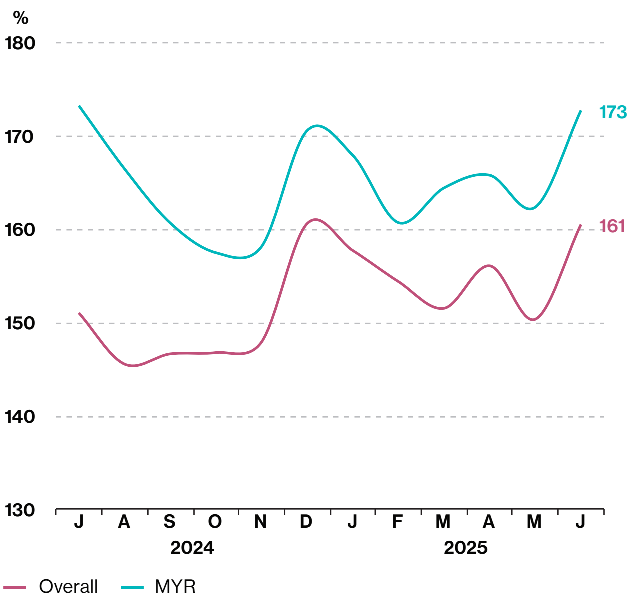
Financial Institution Soundness and Resilience

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.

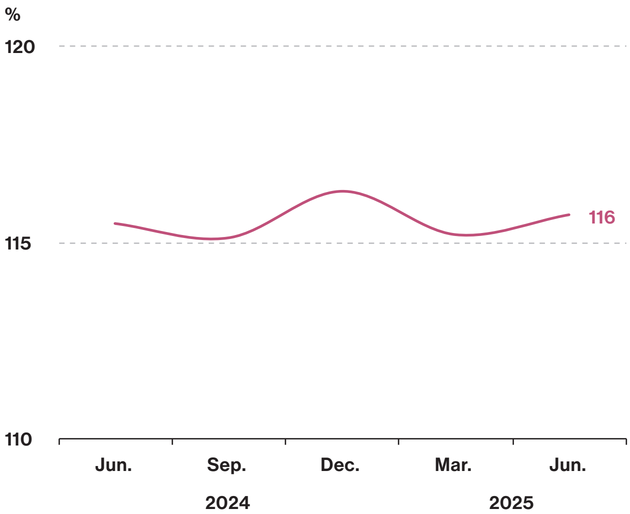
Chart 2.1: Banking System – Liquidity Coverage Ratio



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

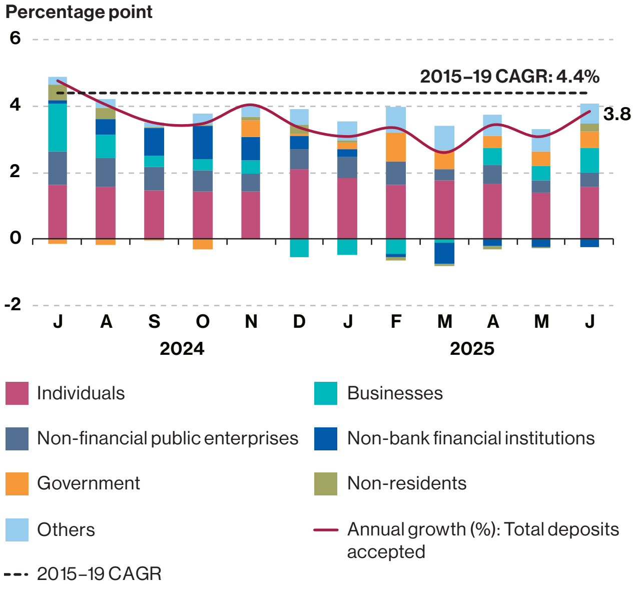


Source: Bank Negara Malaysia

As at June 2025, banking system deposits[1] 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).

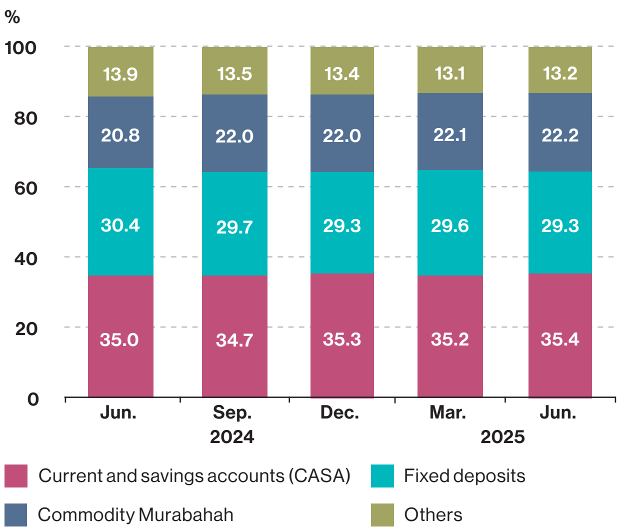
[1] Banking system deposits refer to deposits from resident individuals, businesses, NBFIs, the government, banking institutions and non-residents. Beginning from BNM's Financial Stability Review for First Half 2025, banking system deposits exclude repurchase agreements and thus, may not be directly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

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



Source: Bank Negara Malaysia

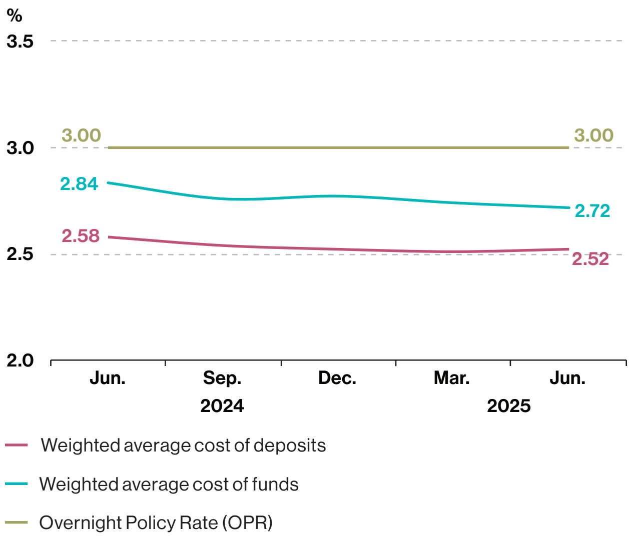
Chart 2.4: Banking System – Composition of Deposits Accepted by Type



Source: Bank Negara Malaysia

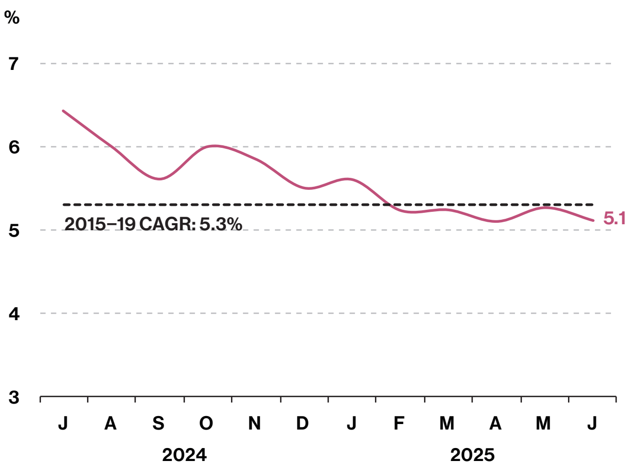
Despite ongoing uncertainties in global markets, domestic funding conditions remained manageable, supported by the additional liquidity released into the banking system following BNM's decision to reduce the Statutory Reserve Requirement (SRR) ratio by 100 basis points (bps). This decision, along with 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

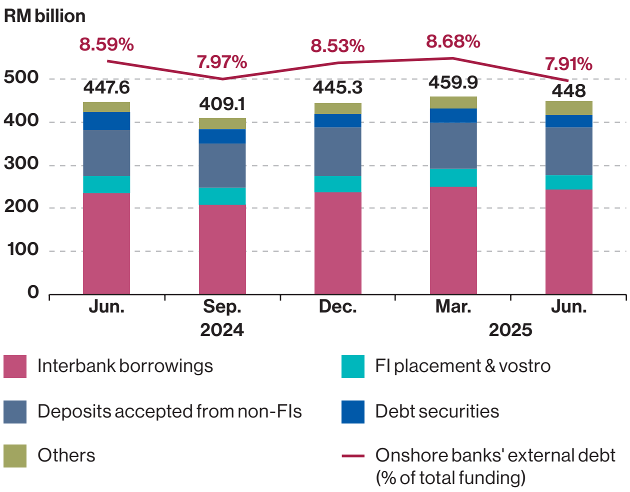


Source: Bank Negara Malaysia

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-out[2] 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



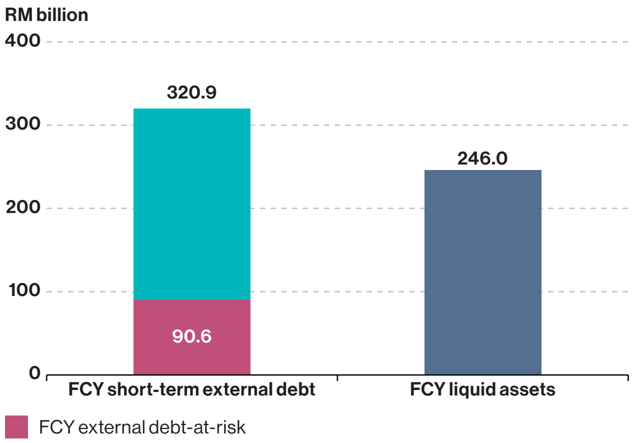
Note: Banks' external debt in this context refers to external debt of DBGs, LIFBs and banks in the Labuan International Business and Financial Centre (LIBFC).

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 to 2.7 times the portion of external FCY funds most susceptible to sudden withdrawal shocks, or FCY debt-at-risk[3] (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.

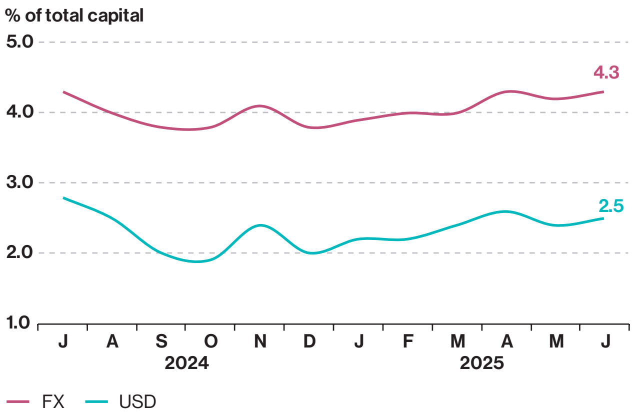
Chart 2.8: Banking System – FCY External Debt-at-Risk and Liquid Assets



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

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

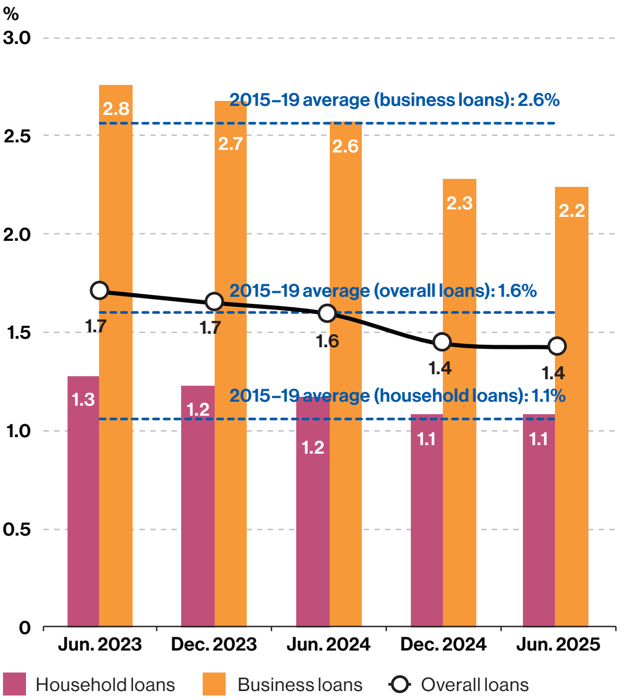
[3] Banks' external debt-at-risk comprises financial institutions' deposits, interbank borrowings and short-term loans from unrelated non-resident counterparties, which are considered more susceptible to sudden withdrawal shocks.

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%).

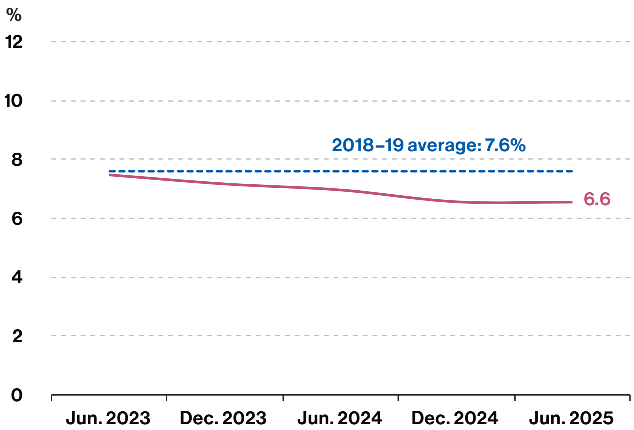
Despite the significant improvement recorded in asset quality relative to the pre-pandemic period, banks have maintained a prudent approach to provisioning. The banking system loan loss coverage ratio (including regulatory reserves) remained high at 130.4% (December 2024: 129.6%) (Chart 2.12), reflecting banks' continued conservatism in managing credit risks particularly among borrowers in higher-risk segments that face ongoing cost challenges. Notably, management overlays[4] 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 2.10: Banking System – Gross Impaired Loans Ratio



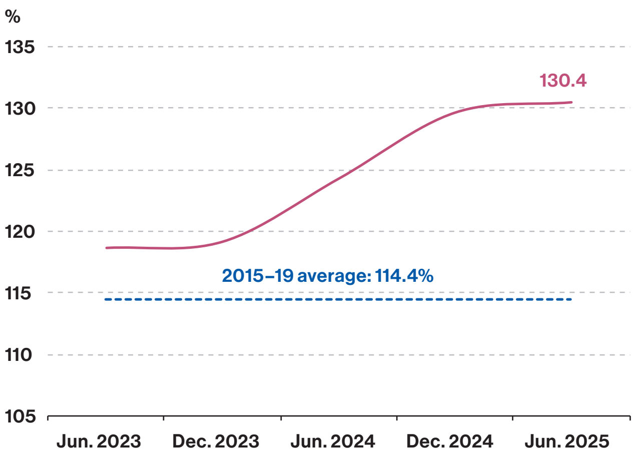
Source: Bank Negara Malaysia

Chart 2.11: Banking System – Stage 2 Loans Ratio



Source: Bank Negara Malaysia

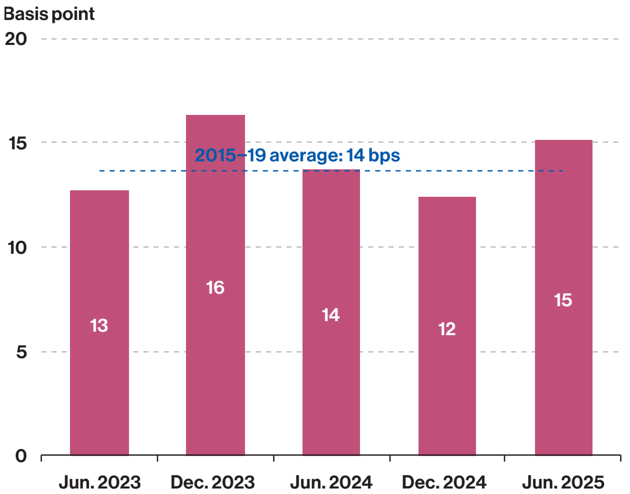
Chart 2.12: Banking System – Loan Loss Coverage Ratio (Including Regulatory Reserves)



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



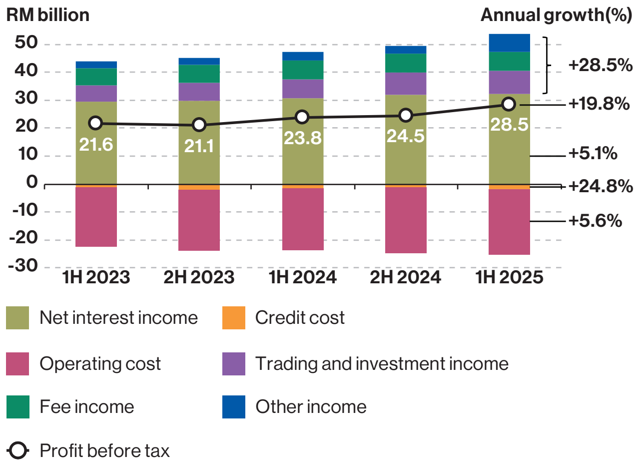
Source: Bank Negara Malaysia

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.

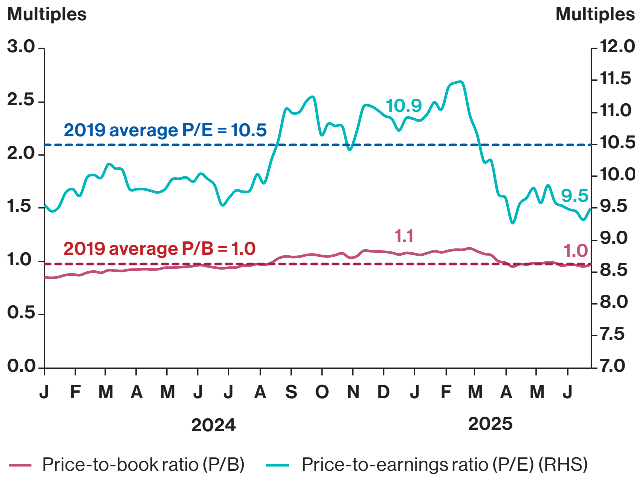
Chart 2.14: Banking System – Income, Cost and Profit before Tax



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%).

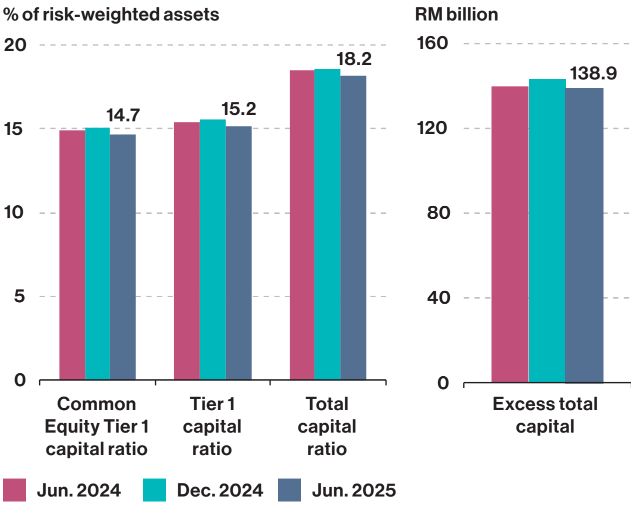
6 Return on asset and return on equity (ROE) are calculated using profit before tax. Based on profit after tax, ROE stood at 10.8% (December 2024: 9.3%).

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

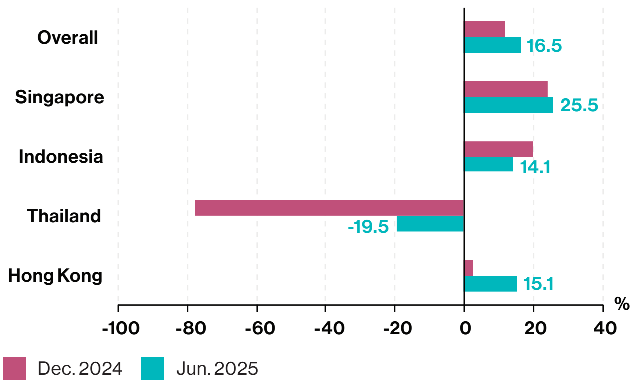
D-SIBs	HLA Requirement (% of risk-weighted assets)
Malayan Banking Berhad	1.0
CIMB Group Holdings Berhad	
Public Bank Berhad	0.5

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



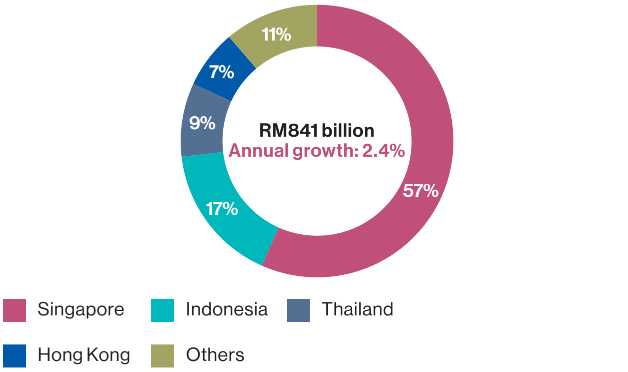
Note: 1. Overall average ROE is weighted by the asset size of selected overseas operations.
2. Average ROE is weighted by the asset size of each domestic banking group's overseas operations in respective jurisdictions.
3. The negative ROE for Thailand is a function of a small equity base associated with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

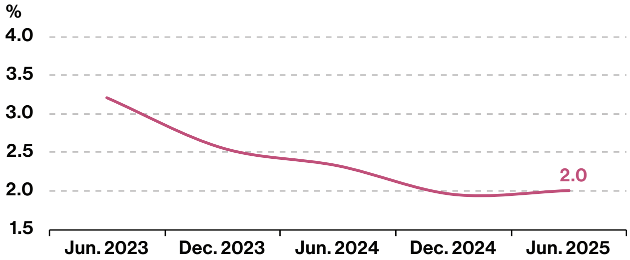
Chart 2.18: Banking System – Asset Profile of Major Overseas Operations



Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

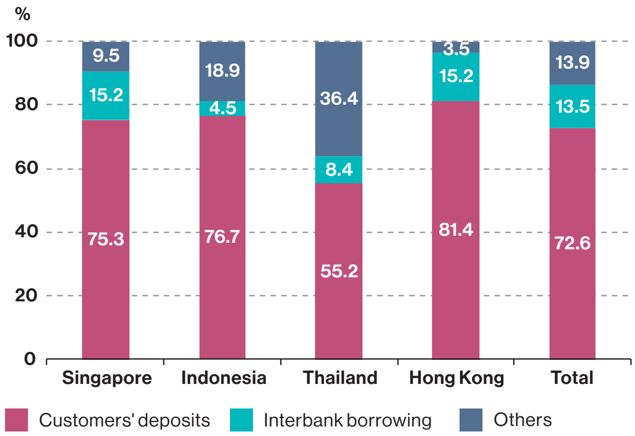
Chart 2.19: Banking System – Gross Impaired Loans Ratio of Overseas Operations



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

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%).

THE INSURANCE AND TAKAFUL SECTOR

Overall profitability of insurance and takaful funds improved on better bond investment and underwriting performance

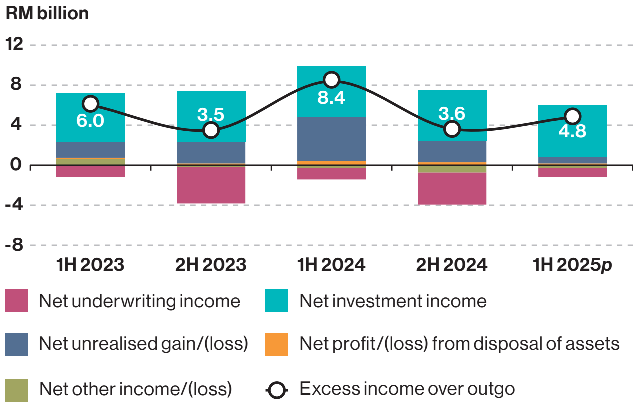
In the first half of 2025, the overall profitability of life insurance and family takaful funds, as measured by excess income over outgo (EIOO),[9] improved to RM4.8 billion (2H 2024: RM3.6 billion) (Chart 2.21). This was driven mainly by sustained investment income. During this period, insurers and takaful operators (ITOs) in the life and family segment were impacted by weaker equity investment performance amid uncertainty surrounding US tariffs. However, higher net unrealised gains from bond investment portfolio helped offset the subdued equity market returns, amidst a decline in bond yields.

Life and family ITOs recorded lower underwriting losses during this period. This reflected the seasonally lower policy maturities and vested benefit payouts, which are typically observed in the first half of the year. The improved underwriting performance was also supported by seasonal renewals from group policies.

Growth in new business premium[10] declined in the first half of 2025 (-2.1%; 1H 2024: 12.7%; 1H 2023: 2%) (Chart 2.22). This was primarily attributed to slower growth in new business premium for investment-linked (IL) products. Customers reduced their top-ups due to weaker appetite for investments amid uncertainties in the financial markets. Additionally, sales of IL products declined broadly due to increased competition for the bancassurance channel from other bank-distributed investment products. The agency channel was also affected by prevailing sentiment surrounding life and medical insurance products. Nonetheless, growth in the overall new business premium remained supported by steady seasonal contributions from the ordinary family takaful and non-participating life insurance segments.

To preserve medical and health protection amid high medical inflation, ITOs have implemented premium adjustments under the interim repricing measures introduced in December 2024.[11] Nevertheless, achieving a sustainable healthcare financing would require broader structural reforms and collective effort from all stakeholders. To this end, BNM, in collaboration with the Ministry of Health, the Ministry of Finance and key stakeholders from the healthcare industry, has introduced the RESET health financing initiative. RESET focuses on revamping healthcare insurance/takaful, improving price transparency, strengthening

Chart 2.21: Life Insurance and Family Takaful Fund – Composition of Income and Outgo



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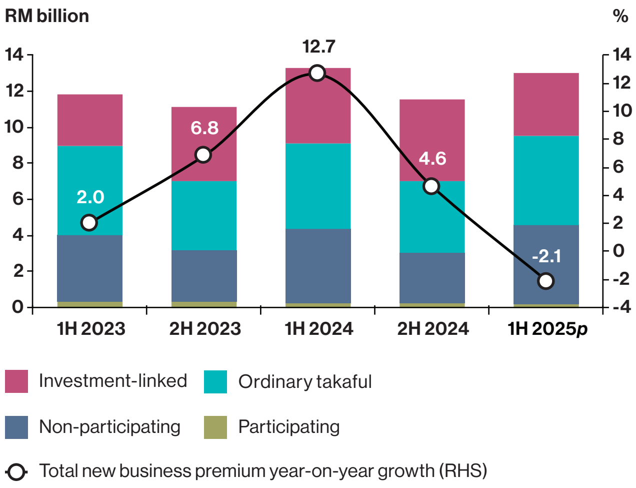
Note: 1. Data excludes investment-linked unit funds.
2. Net underwriting income refers to excess of net premium after deducting benefit payouts, agency remuneration and management expenses.

Source: Bank Negara Malaysia

Chart 2.22: Life Insurance and Family Takaful Sector – New Business Premium Growth and Product Composition



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Source: Bank Negara Malaysia

[9] The EIOO does not take into account changes in reserves required to be set aside by insurers and takaful operators to cover future insurance/takaful claims.

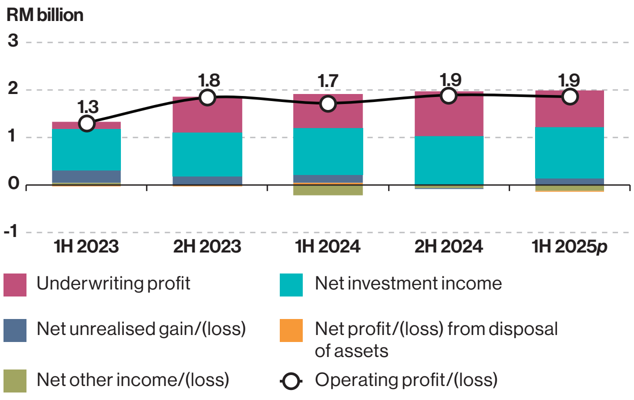
[10] Refers to both insurance premium and takaful contribution, unless stated otherwise.

[11] Refer to the section on 'Securing Sustainable Access to Medical and Health Insurance/Takaful Protection' in BNM's Annual Report 2024 for more details.

the digital healthcare system, and enhancing cost and payment efficiency. Key priorities under RESET include developing a base Medical and Health Insurance/ Takaful product, implementing the Diagnosis-Related Group payment mechanism, and establishing consistent measures of medical inflation. These reforms aim to ensure affordable and sustainable access to healthcare protection for all Malaysians.

In the general insurance and takaful sector, operating profits were broadly sustained at RM1.9 billion (2H 2024: RM1.9 billion; 1H 2024: RM1.7 billion) (Chart 2.23). This performance was supported by higher net unrealised gains from bond investment, offsetting the lower underwriting income recorded in the same period. The slight dip in underwriting profits was driven by higher provisions for claims and premium liabilities. These provisions were attributed to premium growth particularly in the fire segment (Chart 2.24), seasonal policy renewals and claims volume reported during the festive seasons. As the phased liberalisation of motor and fire tariff progresses,[12] general ITOs are focused on fulfilling their commitments under Phase 2A applications before transitioning to Phase 2B. The commitments under Phase 2A include the substantial implementation of digital roadside assistance to improve customers' motor claims experience and outcome. Amid this transition, the net claims incurred ratio[13] for the fire and motor segment remained stable at 36.5% and 70.3% respectively.

Chart 2.23: General Insurance and Takaful Fund – Composition of Operating Profits



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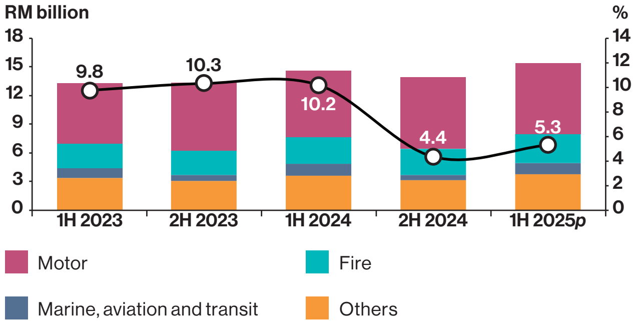
Source: Bank Negara Malaysia

Chart 2.24: General Insurance and Takaful Sector – Gross Direct Premium Growth and Product Composition



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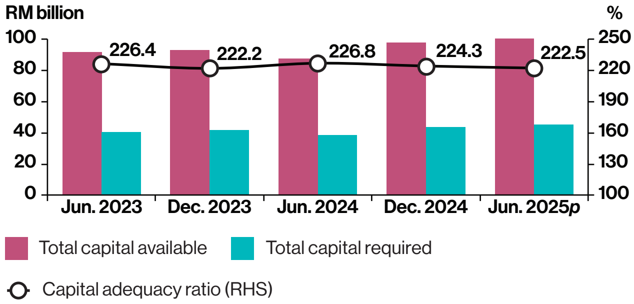
Source: Bank Negara Malaysia

The insurance and takaful sector remained resilient, supported by strong capital and liquidity positions. The aggregate capital adequacy ratio for the industry remained healthy at 223% (December 2024: 224%), well above the regulatory minimum of 130% (Chart 2.25). Accordingly, aggregate capital buffers in excess of regulatory requirements remained ample at RM42 billion (December 2024: RM41 billion).

Chart 2.25: Insurance and Takaful Sector – Capital Adequacy Ratio



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Source: Bank Negara Malaysia

Looking ahead, global economic and policy uncertainties and the consequent volatile financial market conditions continue to pose a key downside risk to the performance of ITOs, given their sizeable investment holdings in bonds and equities. Domestically, securing new growth may prove challenging due to dampened demand amid cost-of-living pressures. ITOs need to carefully balance evolving customer needs with sustainable expansion, particularly for medical products. While the medicine price transparency rules, effective May 2025, are likely to partially ease medical cost pressures, costs are expected

[12] ITOs that commit to reforms to improve the motor claims ecosystem will gradually be accorded greater pricing flexibility for motor and fire insurance/takaful products in two phases – Phase 2A, followed by Phase 2B – each allowing progressive adjustments to premium/takaful contribution limits.

[13] Net claims incurred ratio refers to the ratio of net claims incurred to earned premium income.

to remain elevated in the near term due to high reliance on imported drugs and equipment. Claims costs could potentially face upward price pressure amid the uncertain effect of tariffs on trade and price of goods. Any resulting impact is likely to be more pronounced in business lines that are more exposed to cost of materials, such as the motor, fire, engineering and medical business. Additionally, the rising frequency of severe climate events poses increasing physical and liability risks, which could translate into higher financial risks for ITOs. Amid these potential headwinds, ITOs are well-positioned to withstand adverse impact with sufficient capital buffers above the regulatory minimum.[14]

[14] Refer to the section on 'Assessing the Resilience of Financial Institutions' in BNM's Financial Stability Review for Second Half 2024.

Progress in Strengthening Senior Management Accountability through Responsibility Mapping

A culture of accountability is critical in financial institutions given the role they play in the economy. Accountability helps ensure that individuals entrusted with the management of financial institutions make decisions that serve the best interest of their institution, shareholders and customers, while supporting long-term sustainable economic growth.

Regulators often face difficulties in identifying and taking enforcement actions against individuals accountable for failures during financial crises or in episodes of misconduct and scandals.[1] This is mainly due to job descriptions often outlining responsibilities in broad and generic terms, rather than clearly specifying the individual who is accountable for the decisions and outcomes. This challenge is further complicated by collective decision-making through committees and processes that cut across the financial institution. Thus, policies that aim to clearly assign critical decision areas to specific members of senior management are crucial in ensuring specific persons are identified and held accountable. These policies promote a strong sense of individual accountability among senior management of financial institutions.

On 29 December 2023, Bank Negara Malaysia (BNM) issued the Responsibility Mapping policy document, outlining an accountability framework for members of senior management of financial institutions in Malaysia. This policy is set to take effect on 1 January 2026.

The policy document provides high-level principles for financial institutions to ensure clarity in the roles and responsibilities of senior management. This is particularly important in areas involving shared responsibilities, matrix reporting structures, collective decision-making forums and intricate reporting structures within financial groups, where reporting lines and individual accountability can be ambiguous. An overview of the policy document is illustrated in Diagram 1.

Diagram 1: Responsibility Mapping Policy Document Objectives, Principles and Intended Outcomes

Objectives of Responsibility Mapping

- Clarify individual responsibility of members of senior management and ensure that they are held accountable for areas under their purview
- Ensure responsibilities are assigned to individuals who have the professional competence and capabilities to effectively perform the responsibilities
- Additional supervisory tool for promoting strong risk culture in financial institutions

Principles	Intended Outcomes
1 Establish process to identify and assign responsibilities to members of senior management	• Comprehensive identification of responsibilities to ensure no gaps or blind spots. • Implementation of Responsibility Mapping is coherent and aligned with other frameworks of the financial institution.
2 Allocate responsibilities to individual members of senior management	• Individual members of senior management are competent and discharge their roles and responsibilities effectively. This includes senior officers in affiliated entities with assigned responsibilities. • Board and CEO are able to influence performance assessment and remuneration of these senior officers.
3 Hold individuals to standards expected of senior management	• Members of senior management act in the best interest of the financial institution. • Members of senior management have clarity and sufficient resources to discharge their responsibilities.
4 Complete and updated documentation of responsibilities	• Comprehensive documentation of responsibilities that promotes clarity in scope and lines of accountability. • Alignment of board's and financial institution's expectation, as well as senior management's understanding over their areas of responsibility.

Source: Bank Negara Malaysia

[1] Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors. (2018). Financial Stability Board.

Financial institutions are making meaningful implementation progress

BNM engaged several financial institutions (including banks, insurers and takaful operators) on their progress in implementing Responsibility Mapping. These engagements focused on arrangements to support implementation of the Responsibility Mapping policy document, approaches to identify and assign responsibilities to members of senior management and challenges in documenting responsibilities.

Most financial institutions designate either the Chief Compliance Officer or Chief Human Resource Officer to lead the implementation of the Responsibility Mapping policy document. The designated lead works alongside a cross-functional team that includes representatives from human resource, compliance and risk management. This structure is essential to ensure that the accountability framework not only meets regulatory requirements but also aligns with the financial institutions' performance and incentive frameworks.

Overall, financial institutions are making steady progress in the identification and allocation of responsibilities to members of senior management. Most institutions began this process with a structured, bottom-up approach that involves identifying gaps in their existing governance framework and arrangements. These gaps were identified by reviewing existing organisation structure, reporting lines, job descriptions, committee terms of references, accountability matrices, and ensuring alignment with regulatory requirements. Several institutions complemented this with a top-down approach by analysing alignment between board expectations and senior management's actual span of control and influence.

Financial institutions acknowledged that the Responsibility Mapping exercise was useful in identifying blind spots, overlaps and ambiguities in responsibilities across their organisations. BNM observed that these issues varied depending on the institution's size, scale, risk profile and complexity.

In larger and more complex institutions, governance structures often involve multi-layered arrangements and matrix reporting that are designed to help maintain oversight and control, manage risks and meet regulatory requirements across their vast operations. Business functions are further segmentised into functional units or lines due to the sheer scope of responsibilities. Efforts of these institutions were often dedicated to understanding and capturing the interactions and dynamics between senior management and their direct reports. Tools such as the RACI[2] framework are commonly employed by financial institutions to clarify roles, distinguishing those responsible for task execution, those accountable for decision-making, those offering functional advice, and those who need to be kept informed regarding specific responsibilities.

In smaller institutions, where members of senior management may take on multiple roles,[3] the gaps assessment often focuses on the responsibilities of individual senior management to ensure they can discharge their duties effectively, avoid conflicts of interests and maintain sufficient oversight. Where necessary, some responsibilities are reassigned to other members of senior management.

Some financial institutions leverage the talent and expertise of their affiliated entities, especially when in-house capabilities are limited. However, such reliance can pose challenges in ensuring adequate oversight and accountability for decisions and actions taken by affiliate employees. The Responsibility Mapping exercise enabled these institutions to review and strengthen their governance arrangements.

A common challenge across all financial institutions was finding the appropriate level of granularity when documenting responsibilities. This becomes more acute in governance arrangements involving collective decision-making forums, shared roles or responsibilities and matrix reporting within financial groups. Financial institutions should periodically review and test the accuracy, comprehensiveness and granularity of their documented responsibilities. This process may involve analysing past incidents or simulating hypothetical scenarios to trace lapses or issues back to individuals within senior management. Such exercises allow financial institutions to uncover accountability gaps and blind spots

[2] Responsible, Accountable, Consulted, Informed.
[3] For example, roles in areas such as operations and information technology, and risk management and compliance.

within their organisation – typically occurring at role handover points or where responsibilities span multiple business functions – and across affiliated entities. This reflection enables institutions to evaluate their governance arrangements and make necessary changes to reporting lines to resolve identified gaps.

Despite these challenges, financial institutions reported that members of senior management have responded positively to the framework. This is in recognition of its role in clarifying lines of accountability when issues arise and in closing expectation gaps between the board and senior management. The Responsibility Mapping exercise also provided a more structured opportunity for senior management to highlight obstacles affecting their ability to discharge responsibilities and identify the support needed from the board to address those challenges.

Responsibility Mapping is not merely a compliance exercise

Responsibility Mapping should not be a one-off compliance exercise; it serves as an important governance tool that strengthens financial institutions' risk management and long-term resilience. Therefore, it is important for financial institutions to take active steps to critically evaluate the effectiveness of their existing governance frameworks. Designed to be an iterative exercise, BNM expects financial institutions to continuously enhance and strengthen their accountability culture and governance practices, which in turn elevates senior management to a higher standard of professional conduct.

When implemented effectively, Responsibility Mapping delivers a myriad of benefits across multiple stakeholders. At the leadership level, it provides the board with greater visibility into the roles and accountabilities of senior management, enabling more effective oversight and performance evaluation. For senior management, it reinforces better accountability culture through the consistent application of reasonable steps, ensuring responsibilities are actively managed, emerging risks are promptly addressed, delegated responsibilities are supervised with appropriate controls, and decisions are well-documented. BNM believes Responsibility Mapping will help financial institutions enhance public trust and consumer confidence in their commitment to a strong governance and accountability culture.

Annex

Table A.1

Key Financial Soundness Indicators

	As at end				
	1H 2023	2H 2023	1H 2024	2H 2024	1H 2025*p*
	% (or otherwise stated)				
Banking System					
Total Capital Ratio	18.8	19.0	18.5	18.6	18.2
Tier 1 Capital Ratio	15.7	15.9	15.4	15.6	15.2
Common Equity Tier 1 Capital Ratio	15.1	15.4	14.9	15.1	14.7
Return on Assets (based on profit before tax)[1]	1.3	1.2	1.3	1.3	1.5
Return on Equity (based on profit before tax)[1]	11.5	11.2	12.1	12.1	13.8
Return on Equity (based on profit after tax)[1]	8.7	8.7	9.2	9.3	10.8
Liquidity Coverage Ratio	154.5	161.0	155.2	160.7	160.5
Net Impaired Loans Ratio[2]	1.1	1.1	1.0	0.9	0.9
Capital Charge on Interest Rate Risk in the Trading Book to Capital Base	1.0	1.0	1.2	1.3	1.2
FX Net Open Position to Capital Base	3.7	3.8	4.7	3.8	4.3
Equity Holdings to Capital Base	1.2	1.4	2.2	2.1	2.2
Insurance and Takaful Sector					
Capital Adequacy Ratio	226.4	222.2	226.8	224.3	222.5
Life Insurance and Family Takaful					
Excess Income over Outgo (RM billion)[3]	6.0	3.5	8.4	3.6	4.8
New Business Premium / Contribution (RM billion)	12.6	11.5	14.2	12.0	13.9
Capital Adequacy Ratio	217.5	211.2	219.9	215.5	213.7
General Insurance and General Takaful					
Operating Profit (RM billion)	1.3	1.8	1.7	1.9	1.9
Underwriting Profit (RM billion)	0.2	0.8	0.7	0.9	0.8
Gross Direct Premium / Contribution (RM billion)	13.3	13.3	14.6	13.9	15.4
Claims Ratio	60.7	56.7	57.7	56.4	57.9
Capital Adequacy Ratio	250.0	253.0	242.5	248.1	244.4
Household (HH) Sector					
HH Debt (RM billion)	1,481.8	1,534.7	1,573.5	1,625.2	1,666.4
HH Financial Assets (RM billion)	3,038.7	3,176.8	3,300.1	3,452.3	3,478.5
HH Debt-to-GDP Ratio	81.8	84.1	83.8	84.1	84.8
HH Financial Assets-to-Total HH Debt Ratio	205.1	207.0	209.7	212.4	208.7
HH Liquid Financial Assets-to-Total HH Debt Ratio	133.3	132.3	135.2	134.3	130.4
Impaired Loans Ratio of HH Sector (Bank+ DFI Loans)[4]	1.3	1.2	1.2	1.1	1.1
Impaired Loans Ratio of HH Sector (Non-Bank Loans)[5]	1.9	1.7	1.8	1.8	2.0
Business Sector					
Return on Assets	2.4	2.5	2.5	2.7	2.3
Return on Equity	3.8	4.2	4.4	4.6	4.1
Debt-to-Equity Ratio	20.9	20.6	20.8	22.4	21.4
Interest Coverage Ratio (times)	5.7	6.2	6.1	6.5	6.2
Operating Margin	6.6	7.3	7.2	8.0	7.3
Impaired Loans Ratio of Business Sector[4]	3.6	3.5	3.5	3.1	3.1
Development Financial Institutions[6]					
Lending to Targeted Sectors (% change)	2.4	5.9	5.3	5.6	7.8
Deposits Mobilised (% change)	1.8	-0.1	4.3	7.2	2.9
Impaired Loans Ratio	5.9	5.6	6.0	5.6	5.6
Return on Assets	1.2	1.3	1.4	1.2	1.3

1 Banking system profits are aggregated at the entity level and adjusted for dividend income received from domestic banking subsidiaries.
2 Based on Stage 3 loans under the Malaysian Financial Reporting Standard 9 (MFRS 9).
3 Excess income over outgo excludes investment-linked unit funds to reflect the core performance of ITOs' profitability more accurately and thus, may not be directly comparable to the data reported in previous publications.
4 Based on Stage 3 loans under the MFRS 9. Data refers to banking system and development financial institution (DFI) loans.
5 Based on loans with 3 months or more in-arrears. Beginning 2H 2024, the data series has been revised to exclude DFIs, and thus, may not be directly comparable to the data reported in previous publications.
6 Refers to development financial institutions under the Development Financial Institutions Act 2002.

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Note: Figures may not necessarily add up due to rounding.

Source: Bank Negara Malaysia, Bursa Malaysia, Department of Statistics Malaysia, Employees Provident Fund, Securities Commission Malaysia, S&P Capital IQ and Bank Negara Malaysia estimates

Table A.2

Key Financial Indicators: Islamic Banking and Takaful Sectors

	As at end				
	1H 2023	2H 2023	1H 2024	2H 2024	1H 2025*p*
Islamic Banking System	RM million (or otherwise stated)				
Total Assets[1]	1,343,223.8	1,398,193.1	1,440,593.4	1,516,590.2	1,570,709.6
% of total assets of entire banking system[1]	36.2	36.6	36.9	38.0	38.4
Total Financing[1]	993,226.8	1,049,910.7	1,083,599.8	1,133,034.6	1,173,317.4
% of total loans / financing of entire banking system[1]	44.7	45.6	45.9	46.6	47.2
Total Deposits and Investment Accounts[1]	1,075,999.2	1,121,986.4	1,148,306.9	1,197,989.6	1,232,735.8
Total Deposits[1]	933,153.2	968,569.3	990,501.3	1,029,031.3	1,052,311.7
Total Investment Accounts[1]	142,845.9	153,417.1	157,805.6	168,958.2	180,424.1
% of total deposits and investment accounts of entire banking system[1]	41.6	42.0	42.3	43.2	43.5
	%				
Total Capital Ratio	18.2	18.0	17.9	17.9	18.1
Tier 1 Capital Ratio	14.8	14.8	14.6	14.8	14.9
Common Equity Tier 1 Capital Ratio	14.1	14.0	13.9	14.0	14.1
Return on Assets	1.0	1.0	1.1	1.1	1.1
Net Impaired Financing Ratio	1.1	1.1	1.0	1.0	1.0
Takaful Sector	RM million (or otherwise stated)				
Takaful Fund Assets	52,461.9	55,631.9	59,749.8	59,654.0	62,536.3
Family	45,969.0	48,476.1	52,274.9	51,620.1	54,237.9
General	6,492.9	7,155.8	7,474.9	8,033.9	8,298.4
% of insurance and takaful industry	13.7	14.0	14.2	13.9	14.3
Net Contribution Income	8,973.5	8,310.7	9,756.8	9,239.9	10,289.1
Family	7,053.3	6,217.6	7,527.1	6,969.8	7,873.9
General	1,920.2	2,093.1	2,229.6	2,270.1	2,415.3
% of insurance and takaful industry	24.7	22.1	24.7	23.1	25.3
Family Takaful					
New Business Contribution	5,225.6	4,363.4	5,228.6	4,503.4	5,306.8
General Takaful					
Gross Direct Contribution	2,679.0	2,764.4	2,960.4	2,940.9	3,247.4
Claims Ratio (%)	64.3	62.2	63.6	64.3	63.5

[1] Including development financial institutions under the Development Financial Institutions Act 2002.

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Note: Figures may not necessarily add up due to rounding.

Source: Bank Negara Malaysia