



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Financial Stability
Review
Second Half
2025





BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Preface

This Financial Stability Review – Second 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.

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

This document uses data available up to 31 December 2025, unless otherwise stated.

Contents

Key Highlights

Overview

Key Developments in the Second Half of 2025

Market Risk	7
Credit Risk	10
Operational Risk	19

Financial Institution Soundness and Resilience

The Banking Sector	25
The Insurance and Takaful Sector	31
Assessing the Resilience of Financial Institutions	34

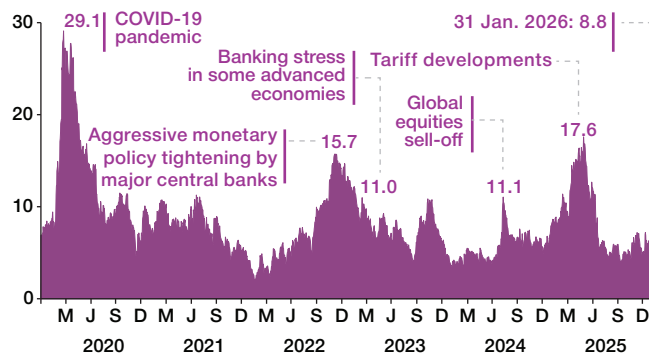
Annex

Key Highlights on Financial Stability Review – Second Half 2025

Orderly domestic financial markets amid lower volatility in global markets

Market stress eased following stable expectations of US monetary policy path and some initial clarity surrounding US trade policy

Financial Market Stress Index (FMSI)
Stress level, % (Minimum=0, Maximum=100)



Orderly domestic market conditions continue to be supported by several key factors

- Well-capitalised banking sector
- Deep and liquid financial markets
- Diversified investor base
- Strong economic fundamentals and domestic structural reforms

Looking ahead...

Uncertainties surrounding geopolitical conflict as well as US trade and monetary policies may heighten global market volatility

Financial institutions well-capitalised with strong buffers, ensuring uninterrupted financial intermediation

Banks maintained strong capital and liquidity buffers, above the regulatory minima

Insurers and takaful operators remained well-buffered



Banks

Total Capital Ratio
(Jun. 2025: 18.2%) **18.1%**

Liquidity Coverage Ratio
(Jun. 2025: 160.5%) **154.8%**

Net Stable Funding Ratio
(Jun. 2025: 115.7%) **115.7%**



Insurance

RM43.8 billion

Excess Capital Buffers
(Jun. 2025: RM41.8 billion)

225%

Capital Adequacy Ratio
(Jun. 2025: 223%)

Banking sector remained prudent in managing credit risk and continued to record healthy profitability

Banks maintained low impairments and prudent provisions...

...while continuing to generate healthy earnings

Gross Impaired Loans Ratio
(Jun. 2025: 1.4%) **1.4%**

Banks

13.1% **Return on Equity**
(Jun. 2025: 13.8%)

Loan Loss Coverage Ratio
(Jun. 2025: 130.4%) **127.2%**

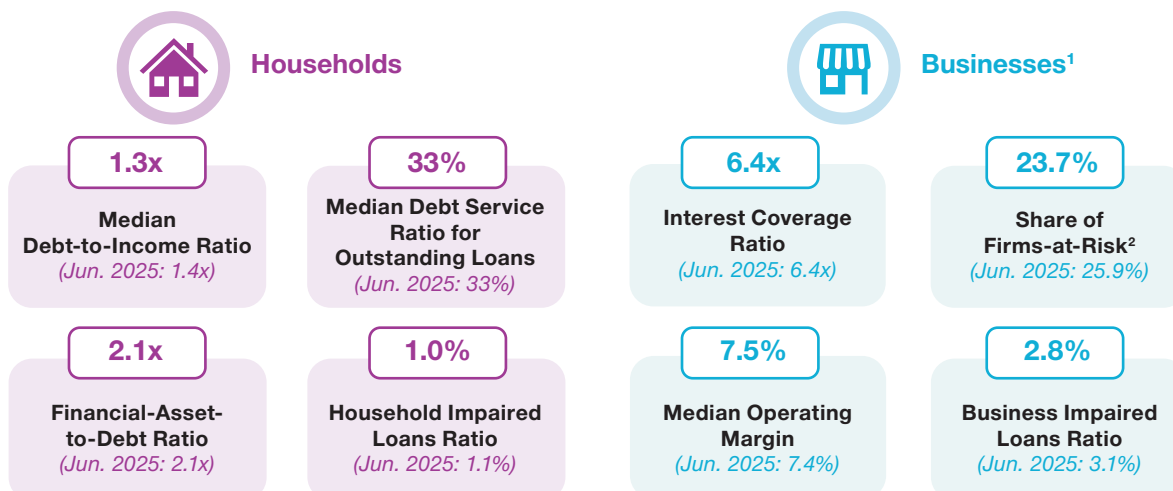
RM26.2 billion **Profit Before Tax**
(Jun. 2025: RM28.6 billion)



Businesses and households' debt repayment capacity remained sound

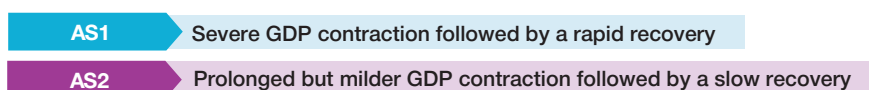
Households' financials remained sound, underpinned by favourable labour market conditions

Resilient businesses amid elevated cost pressures



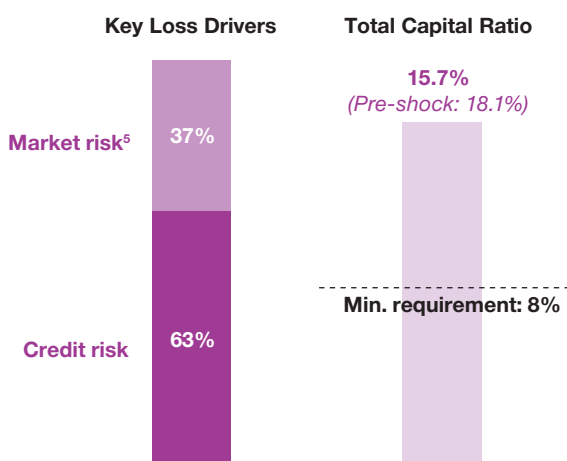
Stress test results affirm the resilience of financial institutions against adverse shocks and support economic recovery

Two Adverse Scenarios (AS) more severe than the 2008 Global Financial Crisis and the 2020 pandemic were used to assess financial institutions' resilience

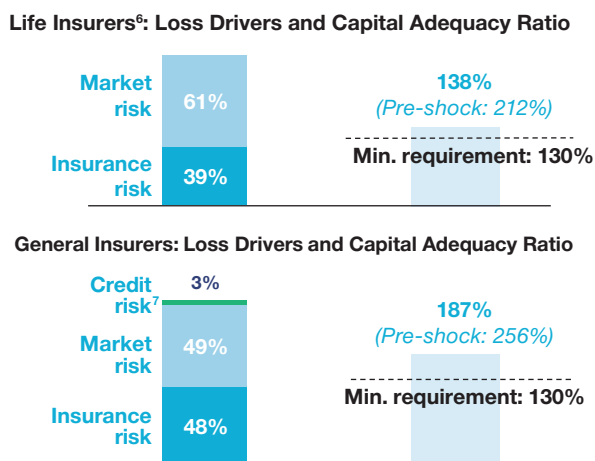


Credit risk and market risk are the key drivers of losses for the banking and insurance systems, respectively. However, post-shock capital ratios³ in aggregate remained above regulatory minima

Banking System Under Adverse Scenario 2 (AS2)⁴
(2026p–2028p)



Insurance System Under Adverse Scenario 1 (AS1)⁴
(2026p–2028p)



p Projected

¹ All indicators cited in this section, except for business impaired loans ratio, are based on reporting by listed firms in Malaysia.

² Firms-at-risk refers to firms with interest coverage ratio below the prudent threshold of two times.

³ Refers to the lowest aggregate post-shock capital ratios over the 3-year stress test horizon.

⁴ Banks incur higher losses under AS2, whereas insurers experience higher losses under AS1.

⁵ Market risk refers to revaluation losses on bonds held in the fair value through other comprehensive income (FVOCI) portfolio and market risk losses from fair value through profit or loss (FVTPL).

⁶ Stress scenario for life insurers includes updated insurance assumptions following recent developments on MHIT products.

⁷ Credit risk for insurers refer to losses from reinsurance defaults.

Source: Bank Negara Malaysia

Overview |

Overview

Global financial market volatility moderated between October 2025 and January 2026 as expectations over US monetary and trade policies became relatively more anchored. These developments, together with continued domestic structural reforms and a softer US dollar environment, contributed to a stronger ringgit. Against this backdrop, domestic market stress eased, with the Financial Market Stress Index (FMSI) registering an overall decline during the period. The temporary late-January uptick in the FMSI mainly reflected the ringgit's stronger performance and gains in the equity market. Looking ahead, the recent conflict in the Middle East and persistent trade frictions could disrupt supply chains, exert upward pressure on prices and weigh on global growth, thereby complicating the monetary policy outlook in major economies. Amid these global uncertainties, shifts in expectations surrounding the US monetary policy path may also drive episodic volatility and heighten risk aversion, posing downside risks to domestic financial markets. Notwithstanding these risks, domestic market sentiment is expected to be supported by Malaysia's strong economic fundamentals, policy credibility and continued structural reforms. In addition, the well-capitalised banking sector, deep financial markets, and diverse investor base will continue to underpin orderly market functioning and resilience.

In the second half of 2025, business activities remained supported by resilient domestic demand amid a challenging external environment. While cost pressures persisted during the period, these were partly offset by lower imported input costs and a firmer ringgit, alongside firms' cost containment efforts. The impact of these cost pressures, however, remained uneven. Larger firms generally recorded improving operating margins given their relatively sizeable operational scale and greater bargaining capacity, whereas smaller firms faced tighter margins. Nonetheless, overall business profitability and debt-servicing capacity remained intact, with median operating margins increasing marginally to 7.5% and the interest coverage ratio remaining stable at 6.4 times. Correspondingly, the overall credit quality of business borrowings also improved, as reflected

in lower shares of impaired loans and loans with increased credit risk (Stage 2 loans). Among small and medium enterprises (SMEs), repayment stress remained confined to a small segment of borrowers with longstanding structural challenges, while the majority continued to adapt to prevailing business conditions and service their debt obligations. Resilient domestic consumption, sustained investments, steady tourism activity and sustained external demand for electrical and electronics (E&E) goods are expected to continue supporting businesses as they navigate the challenging operating environment moving forward.

Household resilience remained supported by positive labour market conditions. Household debt growth moderated slightly in the second half of 2025 and continued to be primarily driven by housing and car loans. The household debt-to-GDP ratio was stable during the period. Micro-level indicators of households' debt-servicing capacity remained sound. The median debt service ratio stood steady at 33%, while the median debt-to-income ratio, a measure of borrower leverage, remained broadly stable at 1.3 times. In the buy now pay later (BNPL) segment, outstanding exposures continued to be small at 0.3% of total household debt, although its rapid expansion warrants close monitoring. In this regard, the Consumer Credit Commission's establishment is timely and important in safeguarding consumers through the regulation and supervision of previously unregulated non-bank credit and credit service providers, including BNPL providers. Overall household credit quality remained sound, supported by prudent underwriting and affordability assessments by banks and healthy repayment behaviour among borrowers. In the near term, household credit risk is expected to remain manageable. Banks and the Credit Counselling and Debt Management Agency (AKPK) will continue to provide support to borrowers experiencing financial challenges where needed.

Conditions in Malaysia's residential property sector were broadly stable amid robust market activity and moderate house price growth. Housing transactions continued to be driven mainly by the mass-market segment (houses

priced RM500,000 and below), which accounted for around three-quarters of total transactions. Notwithstanding this, the number of unsold housing units increased throughout 2025, although these constituted a relatively small share of overall housing stock. This development reflects ongoing supply-demand mismatches, largely arising from an oversupply of units that are unaffordable for many buyers or less attractive due to factors such as location. In the non-residential property sector, oversupply in the office space and shopping complex segments persisted. Vacancy rates in these segments, while still elevated, have generally improved relative to their pandemic-induced peak in 2022. Risks to financial stability from the overall property sector remain manageable, supported by sound quality of banks' loan exposures and prudent median loan-to-value ratios.

Banks remained well-positioned to support financial intermediation, underpinned by healthy liquidity and funding positions. The aggregate Liquidity Coverage Ratio and Net Stable Funding Ratio were well above regulatory requirements at 154.8% and 115.7% respectively. Asset quality remained sound, as reflected in a low and stable gross impaired loans ratio of 1.4% and a decline in the share of Stage 2 loans to 6.1% of total banking system loans (June 2025: 6.6%). Banks maintained prudent provisioning practices, with a high loan loss coverage ratio. Banks' profitability continued to be healthy, supported by sustained interest income. The banking system also remained well-capitalised, with the total capital ratio at 18.1% and excess capital buffers amounting to RM139.3 billion.

The insurance and takaful sector similarly remained resilient. In the life insurance and family takaful segment, overall profitability softened slightly as higher net underwriting losses amid lower premium income and higher medical payouts outweighed stronger investment performance. Notably, ongoing structural reforms to address medical inflation are progressing well. The advancement in the design of the Base Medical and Health Insurance/Takaful (MHIT) Plan, a standardised and voluntary medical protection plan for the public, is a crucial first step to promote long-term sustainability of

MHIT coverage in Malaysia. In the general insurance and takaful segment, operating profits remained stable and were supported by steady underwriting performance. Overall, the insurance and takaful sector remained well-capitalised, with an aggregate capital adequacy ratio of 225% and excess capital buffers amounting to RM43.8 billion.

The latest macro solvency stress tests conducted by Bank Negara Malaysia (BNM), which incorporated additional downside risks, further affirm the resilience of financial institutions against unexpected losses from severe macroeconomic and financial shocks. The stress tests revealed that the worst post-shock aggregate capital ratios over the stress horizon for banks (15.7%), life insurers (138%) and general insurers (151%) remain above regulatory minima of 8% for banks and 130% for life and general insurers.

BNM and financial institutions continued to prioritise efforts to maintain the industry's operational resilience. To further strengthen fraud mitigation amid increasingly sophisticated malware threats targeting customer devices, the industry advanced mobile shielding capabilities and initiated a structured migration of online banking services to supported browsers and operating systems to reduce security vulnerabilities while balancing the risk of financial exclusion. Financial institutions have also been implementing updated requirements to bolster service resilience and cybersecurity following the issuance of the revised Risk Management in Technology policy document in November 2025. In parallel, BNM's targeted reviews of financial institutions' business continuity plans found that the workaround solutions adopted by financial institutions to ensure the continued availability of critical customer-facing services during operational disruptions remained generally adequate. To reinforce the resilience and efficiency of the payment and settlement systems, BNM enhanced the Real-time Electronic Transfer of Funds and Securities System (RENTAS) through the launch of RENTAS+ in late September 2025. This enables the settlement of retail payment transactions on a near real-time basis, thus greatly reducing interbank credit and settlement risks within the system.

Key Developments in the Second Half of 2025

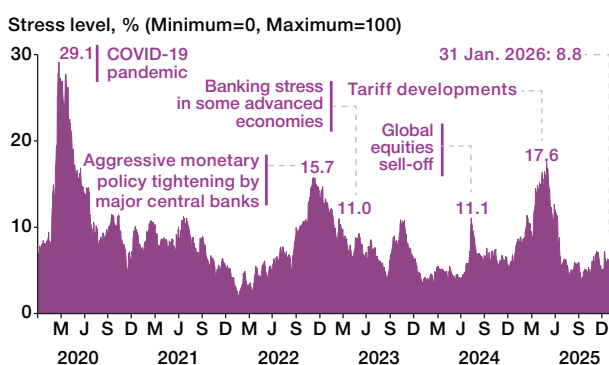
Key Developments in the Second Half of 2025

MARKET RISK

Domestic financial markets remained orderly amid lower volatility in global markets

Since the release of the Financial Stability Review in October 2025, volatility in global financial markets has moderated between October 2025 and January 2026, driven mainly by more stable expectations around the expected path of US monetary policy and some initial clarity surrounding US trade policy. Nevertheless, market sentiment remains weighed down by persistent geopolitical tensions, renewed uncertainty over US trade policies, concerns over stretched valuations in artificial intelligence (AI)-related investments and slowing growth in several major economies. Domestic market stress conditions also eased over the period. The average Financial Market Stress Index (FMSI) level declined to 5.6% between October 2025 and January 2026 (March–September 2025: 9.9%) (Chart 1.1). The FMSI registered a temporary uptick in late January 2026; however, unlike past episodes of elevated stress, this increase mainly reflected volatility associated with the strengthening ringgit and gains in the domestic equity market. These developments lifted the FMSI even as broader market conditions remained orderly.

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

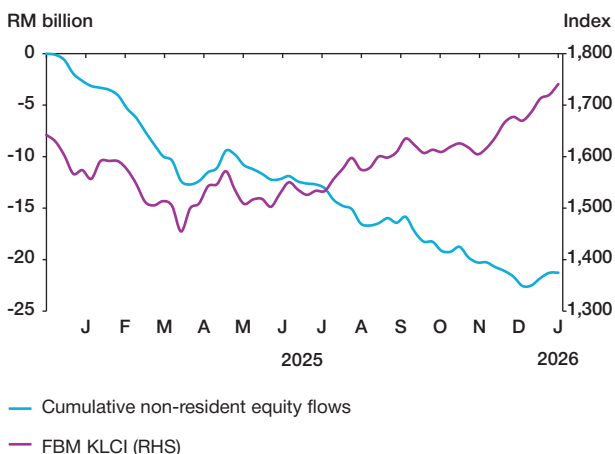


Source: Bloomberg, Reuters and Bank Negara Malaysia estimates

The domestic equity market recorded steady gains, with the benchmark FBM KLCI rising by 8% between October 2025 and January 2026 (Chart 1.2), supported by improved investor sentiment following the conclusion of Malaysia’s trade negotiations and non-tariff measures with the US in October 2025. Despite this, non-residents registered net outflows from the domestic equity market amounting to RM5.9 billion between October and December 2025, as investors shifted their investments to markets with larger exposures to technology-related stocks. In January 2026, however, non-resident flows turned positive, with net inflows of RM1 billion (March–September 2025: -RM11.1 billion), supported by growing interest in emerging markets and increased optimism over Malaysia’s economic prospects. This optimism was underpinned by resilient domestic demand, a healthy labour market and continued progress in structural reforms, including fiscal consolidation efforts, alongside the ongoing realisation of the large pipeline of approved investment projects in 2025. Domestic institutional investors¹ remained as net buyers of domestic equities, accumulating RM8.6 billion in holdings between October 2025 and January 2026 (March–September 2025: RM11.3 billion). Trading activity in the domestic equity market also remained resilient, with the average daily value traded standing at RM3.9 billion between October 2025 and January 2026 (March–September 2025: RM3.3 billion). Meanwhile, retail participation increased to 17.7% of total value traded in the domestic equity market between October 2025 and January 2026 (March–September 2025: 17%).

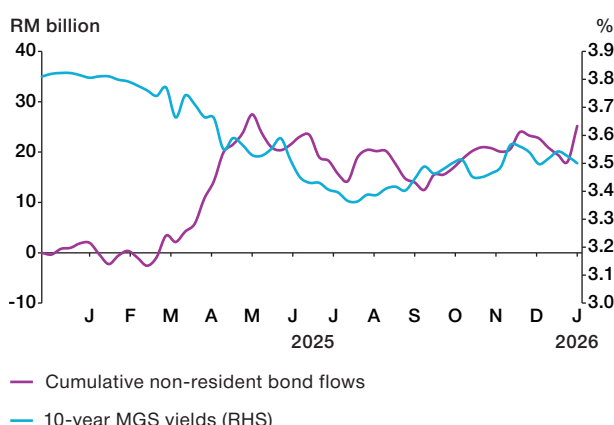
¹ Domestic institutional investors include banks, non-bank financial institutions (NBFIs) and insurers and takaful operators (ITOs).

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

The government bond market recorded non-resident inflows amid positive investor sentiment.

Yields on 10-year Malaysian Government Securities (MGS) increased marginally by 4 basis points (bps) between October 2025 and January 2026, averaging 3.5% during the period (March–September 2025 average: 3.5%) (Chart 1.3). The modest upward movement largely reflected expectations of a stable Overnight Policy Rate (OPR) environment. It was also broadly consistent with developments in the 10-year US Treasury yield amid firmer expectations that the US Federal Reserve would begin reducing policy rates at a measured pace. Despite the slight uptick in the 10-year MGS yields, the government bond market recorded non-resident net inflows of RM11.4 billion between October 2025 and January 2026 (March–September 2025: RM13.4 billion). These inflows were supported by improved investor confidence arising from Malaysia’s favourable macroeconomic prospects, ongoing structural reforms and fiscal consolidation measures, as well as the conclusion of trade negotiations with the US. Domestic institutional investors, including non-bank financial institutions, also registered net purchases totalling RM29.9 billion over the same period (March–September 2025: RM32.4 billion). Market liquidity remained healthy, supported by sustained demand for government bonds in the primary market, as indicated by the relatively healthy average bid-to-cover ratio of 2.2 times between October 2025 and January 2026 (March–September 2025: 2.7 times).

Conditions in the corporate bond market remained favourable to support fundraising activities. Between October 2025 and January 2026, corporates raised RM60.7 billion in new issuance (March–September 2025: RM107.3 billion). In 2025, gross issuance reached a record high (RM173.3 billion) surpassing the previous peak (2022: RM149.8 billion). Credit spreads between 10-year AAA-rated papers and 10-year MGS remained tight, averaging at 23.7 bps during the period (March–September 2025: 20.5 bps), reflecting sustained demand for high-quality corporate bonds from yield-seeking investors. Issuances continued to be concentrated in government-guaranteed and AAA-rated papers, which collectively accounted for more than half of the outstanding corporate bonds.

Total banking system liquidity declined between October 2025 and January 2026 from RM100.7 billion to RM86.7 billion. Over the same period, it ranged between RM84.5 billion and RM100.7 billion (March–September 2025: RM70.9 billion to RM108 billion). The decline primarily reflected year-end seasonal demand for banknotes as well as the lower reverse repo borrowings by banks from Bank Negara Malaysia (BNM), which partly offset the impact of capital inflows. Notwithstanding the lower banking system liquidity levels, liquidity conditions remained favourable, as reflected in the Malaysia Overnight Rate (MYOR) and the average overnight interbank rate (AOIR), which traded close to the OPR during the review period. Trading activity in the interbank markets remained robust, indicating healthy intermediation and smooth market functioning. The average daily interbank unsecured volume remained resilient at

RM6.3 billion between October 2025 and January 2026 (March–September 2025: RM6.7 billion), while the average daily interbank secured volume stood at RM1.1 billion over the same period (March–September 2025: RM1.1 billion).

Consistent with typical year-end seasonal trends, interbank rates rose slightly in the fourth quarter of 2025, before falling in January 2026 (3-month interbank rate: October–December 2025: +5 bps; December 2025–January 2026: -4 bps). The increase was notably more modest than in the same period in recent years, supported by the Statutory Reserve Requirement (SRR) reduction in May 2025 and capital inflows in the second half of 2025. The 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) spread over the OPR widened gradually from 47 bps to 53 bps between end-September and end-December 2025, before settling at 48 bps at the end of January 2026. The more favourable liquidity environment compared to the same period last year also contributed to less intense deposit competition in 2025, which helped ease upward pressure on interbank rates. Reflecting this improved liquidity condition, banks' demand for BNM's lending facilities declined, with outstanding reverse repos falling to RM24.9 billion at end-January 2026, from RM48.6 billion at the end of September 2025. Longer-term interbank rates have stabilised since January 2026, indicating that funding conditions have normalised heading into the period ahead.

Between October 2025 and January 2026, the ringgit appreciated by 6.6% against the US dollar to 3.9453, its strongest level since May 2018. Investor sentiment was positive, with market participants attributing the ringgit's performance to ongoing domestic reforms, the conclusion of trade negotiations with the US and supportive external conditions. The ringgit also strengthened against other major trading partners, as reflected in a 6.1% appreciation in the Nominal Effective

Exchange Rate (NEER). The ringgit's positive performance was aided by an overall softer US dollar, which saw the DXY declining by 0.8% over the same period. The ringgit's volatility remained manageable, with the average 1-month USDMYR implied volatility at 4.5% between October 2025 and January 2026 (March–September 2025: 5.2%). Activities in the domestic foreign exchange market also continued to remain vibrant, with average daily onshore trading volume at USD19.9 billion between October 2025 and January 2026 (March–September 2025: USD20.4 billion).

Looking ahead, Malaysia's financial markets will continue to operate in a highly uncertain global environment, shaped by ongoing developments and uncertainties surrounding geopolitical tensions and trade tariffs. In particular, the recent conflict in the Middle East could lead to greater volatility in energy markets and commodity prices. These risks, together with developments in US trade policies, could weigh on supply chains and add to global inflationary pressures, while also posing headwinds to global growth. This may complicate the monetary policy outlook in major economies, with any abrupt shifts in market expectations regarding the future path of US monetary policy potentially prompting episodes of heightened risk aversion across financial markets. Reflecting these developments, domestic financial market stress has increased, with the FMSI rising to 11% as of 9 March 2026. Taken together, these dynamics point to a challenging operating environment that could heighten global market volatility and spill over into domestic financial markets. Nonetheless, Malaysia's strong economic fundamentals and ongoing domestic structural reforms are expected to provide support to domestic market sentiment. At the same time, the well-capitalised banking sector, deep and liquid financial markets, as well as diversified investor base are expected to continue supporting orderly market functioning and resilience.

CREDIT RISK

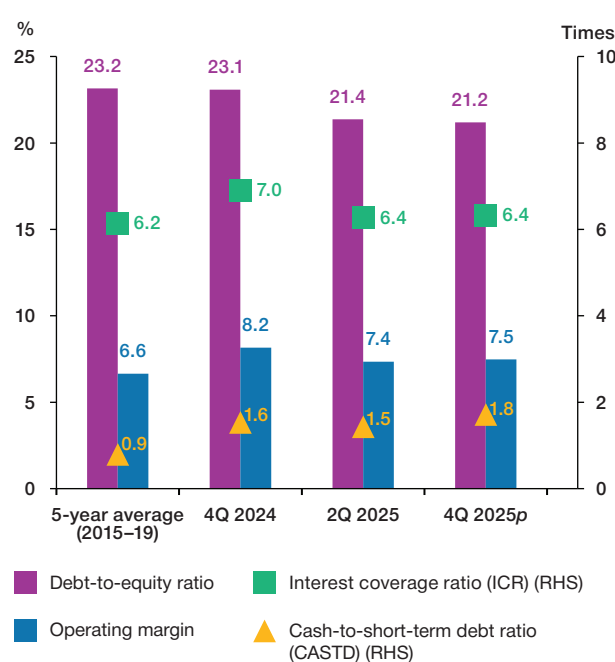
Businesses remained resilient amid the challenging external environment

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

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

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

Chart 1.4: Business Sector – Key Financial Performance Indicators



p Preliminary

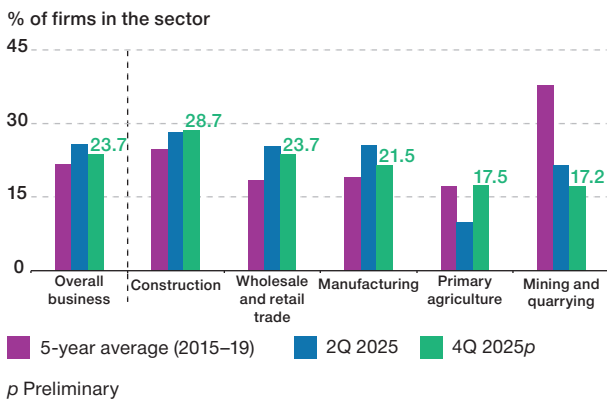
Note: Prudent thresholds for ICR and CASTD are two times and one time respectively.

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

² All financial performance data cited in this section are based on reporting by listed firms in Malaysia.
³ COGS ratio is calculated by dividing a firm's COGS by its revenue. A higher ratio indicates that COGS makes up a higher proportion of revenue.

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

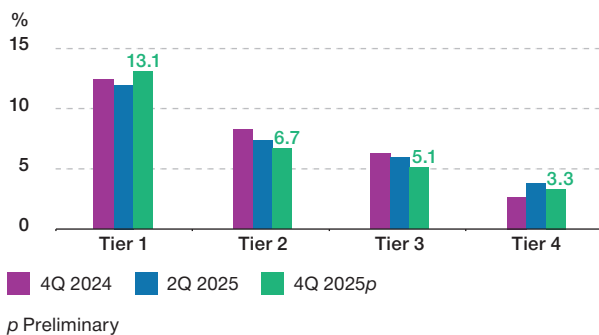
Chart 1.5: Business Sector – Firms-at-risk for Selected Sectors



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

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

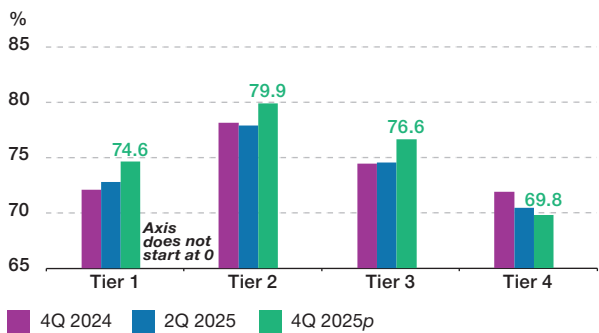
Chart 1.6: Business Sector – Operating Margin by Firm Size



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

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

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

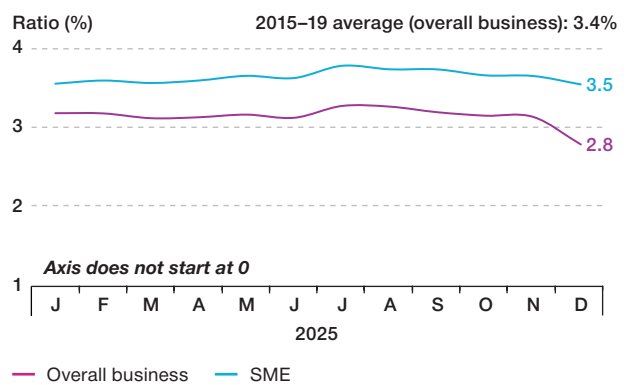


Note: Listed firms are grouped into four size tiers based on total assets as at end 4Q 2025: Tier 1 (assets equal or above RM1.1 billion), Tier 2 (assets between RM0.4 billion and RM1.1 billion), Tier 3 (assets between RM0.15 billion and RM0.4 billion) and Tier 4 (assets below RM0.15 billion).

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

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

Chart 1.8: Business Sector – Gross Impaired Loans



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

Source: Bank Negara Malaysia

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

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

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

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

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

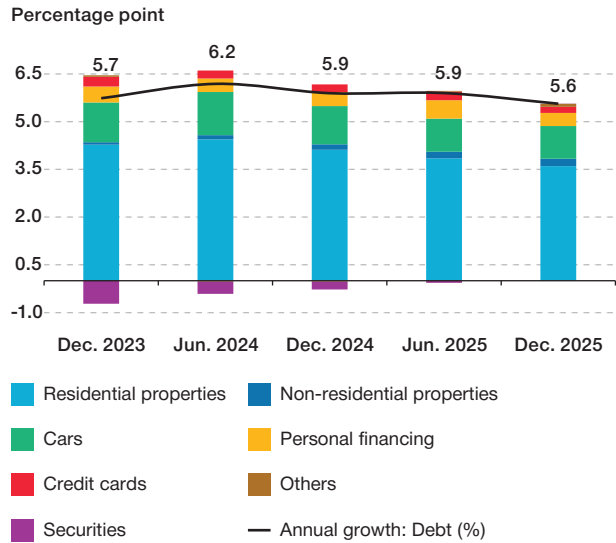
⁷ This refers to measures announced in the YAB Prime Minister's 2026 New Year Address, which include reduced service tax rate on rental along with a higher revenue threshold to be eligible for exemption, and deferred e-invoicing compliance requirements.

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

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

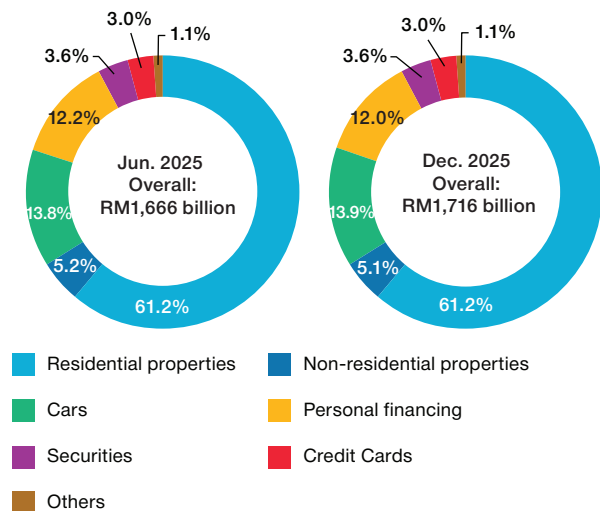
After rising in the first half of the year, the household debt-to-GDP ratio stabilised at 84.8% (June 2025: 84.8%; December 2024: 84.1%), reflecting a strong nominal GDP performance coupled with more moderate household debt growth (Chart 1.11). Given the relative stability of household debt growth in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

Chart 1.9: Household Sector – Annual Growth of Debt



Source: Bank Negara Malaysia

Chart 1.10: Household Sector – Composition of Debt by Purpose



Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

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

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

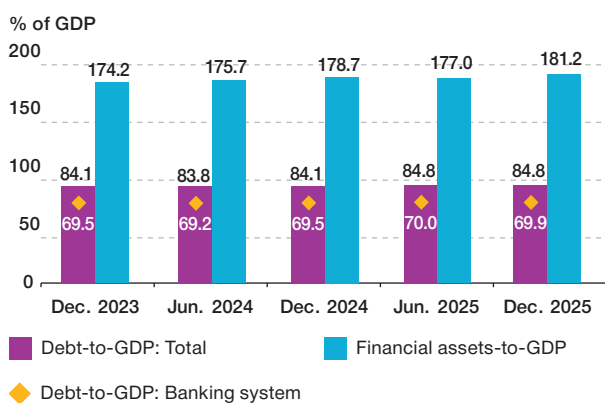
⁹ Refer to the ‘Credit Risk – Household’ section in BNM’s Financial Stability Review for First Half 2025 for more information.

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

KEY DEVELOPMENTS IN THE SECOND HALF OF 2025

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

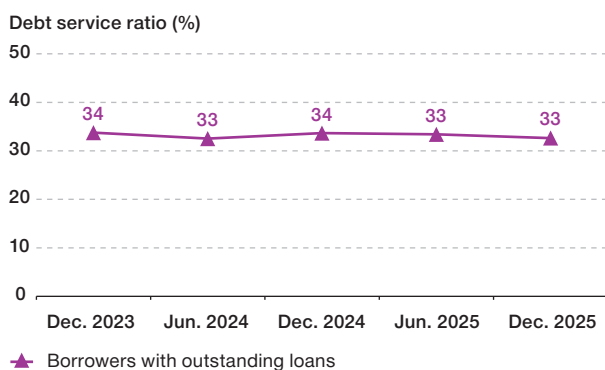
Chart 1.11: Household Sector – Key Ratios



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

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

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



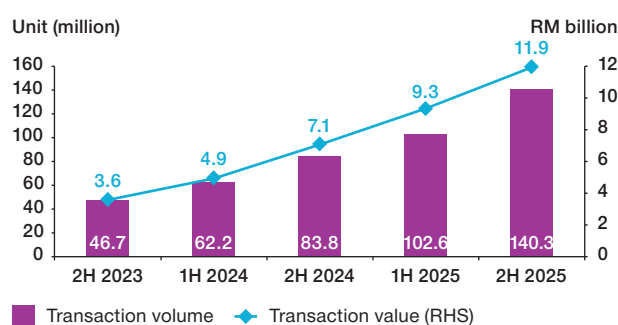
Source: Bank Negara Malaysia

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

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

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

Chart 1.13: Household Sector – BNPL Transaction Volume and Value



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

Source: Consumer Credit Commission

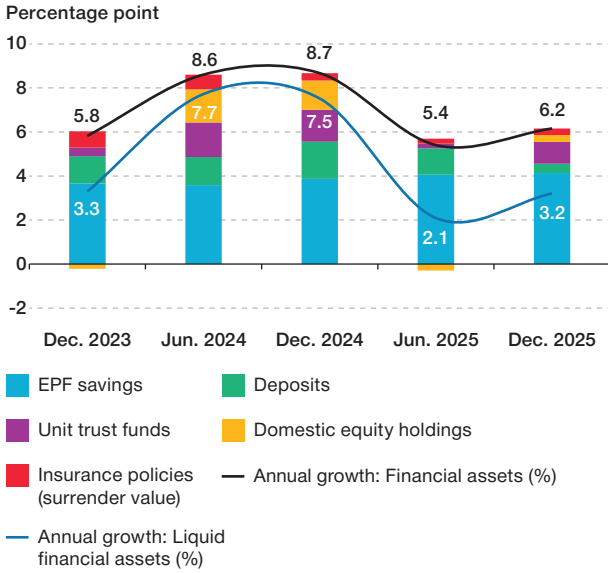
Household financial assets expanded at an annualised pace of 6.2% as at end-December 2025 (June 2025: 5.4%) (Chart 1.14). This growth continues to be primarily driven by households' savings in the Employees Provident Fund (EPF), which contributed 4.1 ppt to the annual growth in household financial assets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

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

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

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

Chart 1.14: Household Sector – Annual Growth of Financial Assets



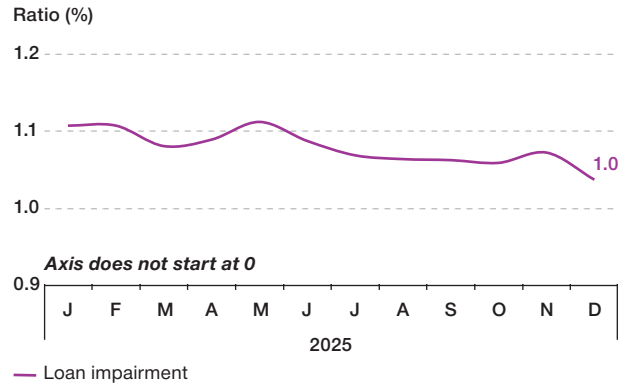
Source: Bank Negara Malaysia, Bursa Malaysia, Employees Provident Fund and Securities Commission Malaysia

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

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

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

Chart 1.15: Household Sector – Loan Impairment Ratio



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

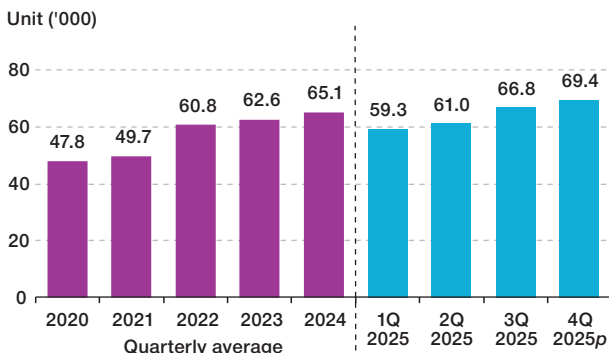
Source: Bank Negara Malaysia

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

Key Developments in the Second Half of 2025: Property

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

Chart 1.16: Property Market – Residential Property Transaction Volume*

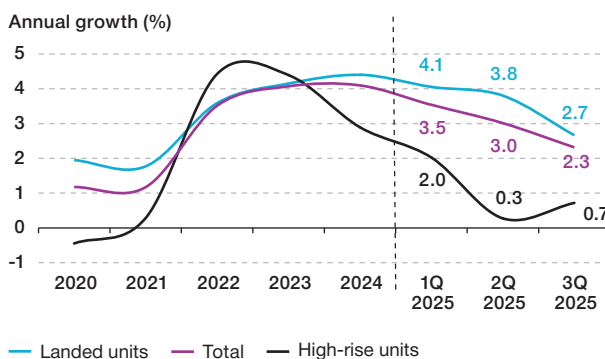


* Excludes serviced apartments and small office, home office (SOHO) as they are both classified as commercial properties under NAPIC.

p Preliminary

Source: National Property Information Centre (NAPIC)

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



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

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

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

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

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

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

¹⁶ Excludes new launches of serviced apartments and SOHO.

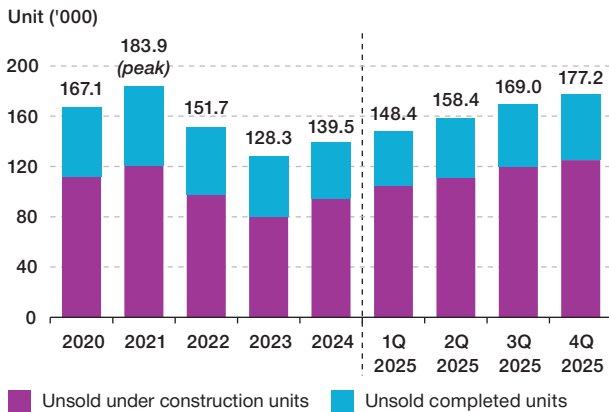
¹⁷ For the purposes of this report, developers with a high share of unsold units are generally those with more than 40% of their launched units remaining unsold.

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

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

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

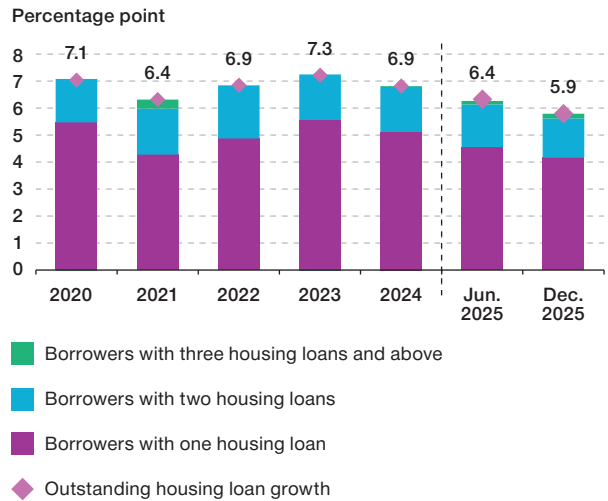
Chart 1.18: Property Market – Volume of Unsold Housing Units



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

Source: National Property Information Centre (NAPIC)

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



Source: Bank Negara Malaysia

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

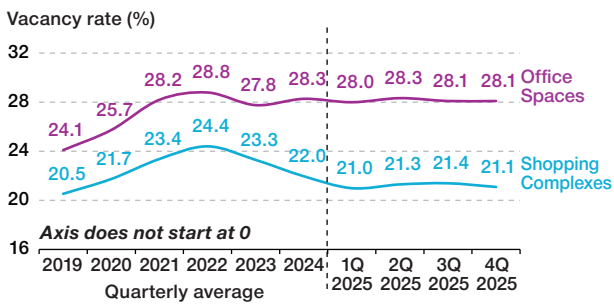
In the non-residential property (NRP)²¹ sector, risks remain manageable despite ongoing challenges in the office space and shopping complex (OSSC) segments. The growing adoption of hybrid work arrangements and flexible workspaces suggests that office space supply is expected to remain in surplus in the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

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

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

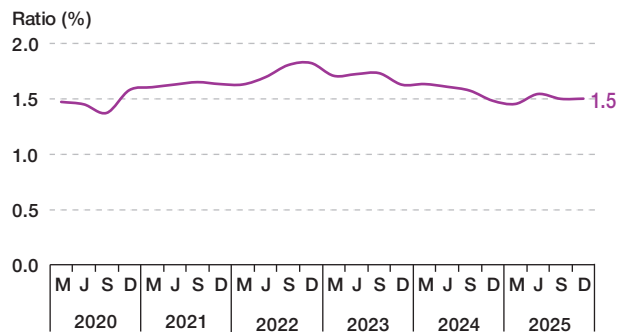
²² Source: Jones Lang Wootton

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



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

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



OPERATIONAL RISK

Financial institutions remained operationally resilient with sustained vigilance over emerging risks

Financial institutions remained operationally resilient throughout the second half of 2025. Associated financial losses increased but remained small at only 0.11% of total banking system capital (1H 2025: 0.04%; 2H 2024: 0.03%). The losses were primarily attributable to a few isolated external fraud cases and system disruptions, which were addressed through timely corrective and recovery actions. In parallel, financial institutions continued to strengthen their operational risk systems and processes with targeted investments aimed at addressing root causes and enhancing internal controls.

As digitalisation and technology adoption accelerate within the financial sector, strengthening cyber resilience remains a key priority. Financial institutions continue to uphold strong cyber hygiene standards and remain vigilant against evolving technological risks and cyber threats. While incidents involving third-party service providers (TPSPs) rose slightly amid global data leaks and supply-chain compromises, no major incidents or direct breaches impacting local financial institutions were reported.²³ Systemic risks from third-party failures remain low, given financial institutions' increasingly stringent risk management controls over third-party services and ongoing enhancements to response, recovery and contingency plans for TPSP-related risks.

Financial institutions also strengthened their vigilance against evolving fraud tactics. As a result, there was a notable increase in the volume of fraudulent transactions successfully blocked in 2025.²⁴ However, reported fraud cases continued to rise, driven mainly by sophisticated malware capable of compromising customer devices and enabling unauthorised fund transfers. In response, BNM and the industry enhanced mobile shielding capabilities

to better protect mobile banking platforms and customer devices from malware and unauthorised access.²⁵ Complementing these efforts, BNM and the financial industry also initiated a structured migration plan to ensure that online banking services operate only on supported web browsers and mobile operating systems. This reduces vulnerabilities associated with devices that no longer receive critical security updates while preserving financial inclusion through compensating safeguards.²⁶

Following the issuance of the revised Risk Management in Technology (RMiT) policy document in November 2025, financial institutions have been implementing the updated requirements to further strengthen service resilience and cybersecurity.²⁷ During this transition period, industry efforts focused on minimising and responding to service disruptions, as well as strengthening customer communication during service outages.

In the second half of 2025, BNM conducted targeted reviews of financial institutions' business continuity plans (BCPs) for critical customer-facing services. The reviews assessed the adequacy of workaround solutions in managing the impact of operational disruptions and ensuring service continuity to customers. While overall arrangements were assessed to be adequate, several areas for improvement were identified, including:

- developing and strengthening recovery capabilities, particularly by modernising core banking systems to meet heightened public expectations on service availability;
- enhancing internal governance and instituting consequence management to reinforce accountability and cultivate a strong operational resilience culture;
- accelerating efforts to identify single points of failure, particularly in online banking, Automated Teller Machines (ATMs) and call centres, given rising dependency complexities and potential systemic implications; and
- conducting more robust joint BCP testing with critical TPSPs to ensure continued delivery of essential financial services during disruptions.

²³ Major global incidents involving TPSPs in 2025 included a data breach affecting legacy cloud environments of Oracle, a global database management software provider, resulting in the leakage of millions of authentication-related records. Another TPSP, Salesloft, similarly experienced a data breach that resulted in a supply-chain compromise. In this incident, attackers exploited the TPSP's integration with a widely used sales chatbot application to gain unauthorised access to multiple cloud environments, affecting several other TPSPs and, in turn, the financial institutions that relied on their services.

²⁴ In 2025, banks successfully blocked approximately RM1.2 billion in fraudulent transactions compared to RM399 million in 2024.

²⁵ These measures include advanced malware detection, blocking of risky applications, enforcing the use of supported devices and operating systems, regular security updates and device integrity checks.

²⁶ In circumstances where customers' devices cannot support the required operating systems, financial institutions shall heighten monitoring of users on such devices, strengthen anti-malware measures and apply appropriate function restrictions to limit security risks.

²⁷ These requirements include step-up service availability goals to meet higher customer expectations, proactive management of intermittent performance issues, enhanced coordination with TPSPs for effective incident response and establishment of communication protocols to keep customers informed and supported during disruptions.

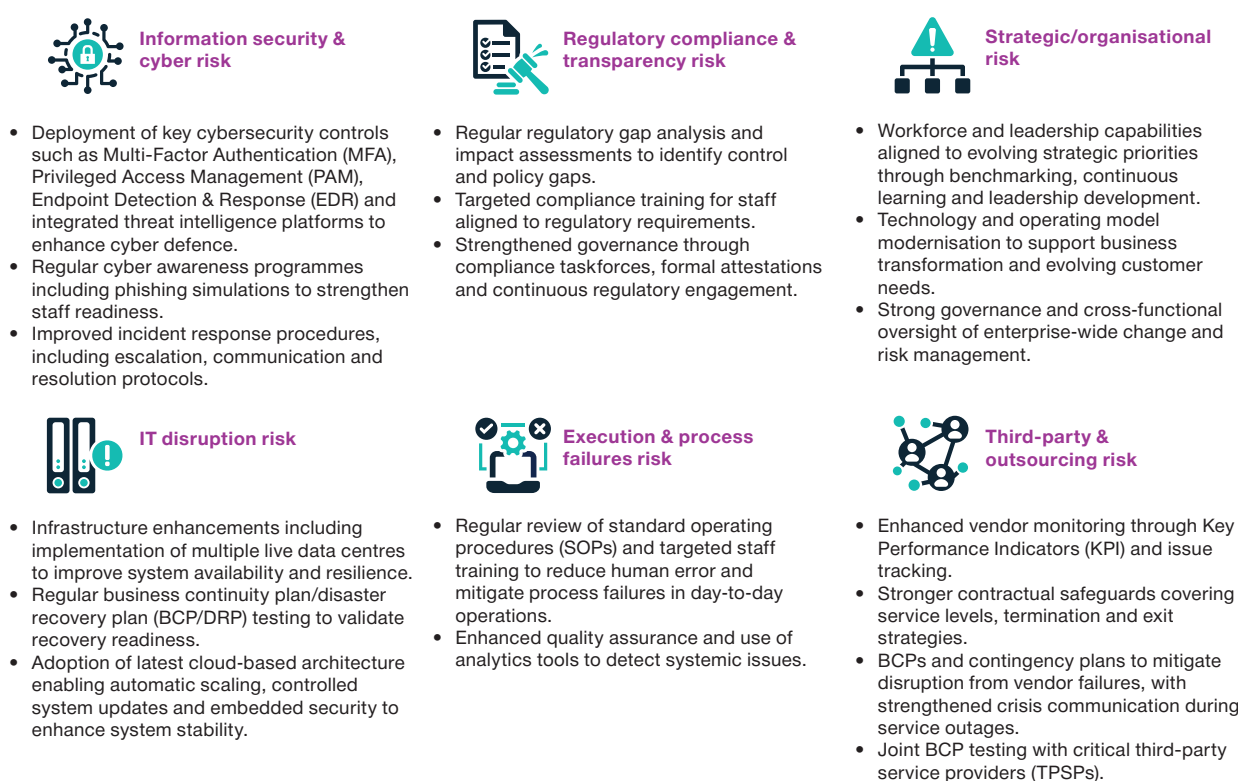
Several large domestic banks have taken proactive steps to bolster crisis readiness by developing scenario-specific BCPs for events such as cyber breaches, power outages and critical information technology (IT) infrastructure failures. These efforts are supported by structured escalation processes with clearly defined timeframes to minimise delays in incident resolution.

Looking ahead to 2026, cyber risk remains the foremost concern for financial institutions amid increasingly sophisticated cyber threats, and the operational, financial and reputational implications.²⁸ The industry also cites strategic and organisational risks as key areas of operational risk, reflecting changes in business models to meet shifting customer needs, heightened competition for critical talent and faster technological advancements. Additionally, regulatory compliance remains a key focus to support institutional resilience. Other notable

operational risks identified for the year include IT disruptions, potential execution failures stemming from human error and risks related to increasing reliance on external service providers (Diagram 1.1).

Given the importance for financial institutions to withstand potential disruptions and maintain continued delivery of financial services, BNM issued a Discussion Paper on Operational Resilience in December 2025 to surface key regulatory considerations governing financial institutions' operational resilience posture and practices. The paper underscores the need for institutions to maintain robust operational risk management capabilities, supported by resilient technology and cyber defences to mitigate and manage disruptions effectively. It also highlights the importance of sound governance and accountability mechanisms, with financial institutions' boards driving tangible and sustained outcomes for operational resilience.

Diagram 1.1: Key Operational Risks and Mitigating Actions



Source: Bank Negara Malaysia

²⁸ Based on the 2025/2026 Emerging Operational Risk Survey conducted by BNM.

Key initiatives are in place to ensure continued resilience of payment and settlement systems.

The Real-time Electronic Transfer of Funds and Securities System (RENTAS) and major retail payment systems (RPS) remained resilient and sustained a high level of system availability in the second half of 2025, with isolated incidents promptly rectified. In addition to ongoing monitoring of key payment infrastructures, BNM conducted targeted supervisory reviews of selected payment service regulatees to assess the adequacy and robustness of fraud controls,²⁹ effectiveness of IT and cyber risk management, and soundness of conduct practices. The reviews observed that payment service regulatees are taking proactive steps to strengthen fraud mitigation measures and meet compliance requirements. While measures for IT and cyber risk management as well as conduct practices were generally assessed to be adequate, the effectiveness of

governance and oversight functions on these areas can be further strengthened. Remediation actions taken following the supervisory reviews have enhanced the level of compliance, reduced operational risks and reinforced the efficiency and reliability of payment services.

As e-payment transactions gain momentum, managing credit and settlement risks associated with real-time retail payments has become increasingly important. To address the interbank settlement risks inherent in deferred net settlement models, BNM has introduced near real-time settlement for Real-time Retail Payments Platform (RPP) transactions through the launch of RENTAS+ in late September 2025. Under this, RPP transactions are settled on a near real-time gross basis, significantly mitigating interbank credit and settlement risks while further strengthening confidence in the payment systems. Further details on RENTAS+ can be found in the chapter on 'Promoting Safe and Efficient Payments and Remittance Services' in BNM's Annual Report 2025.

²⁹ These controls include the implementation of five key fraud countermeasures mandated by BNM for eligible electronic money issuers effective January 2025. The measures comprise robust multi-factor authentication, cooling-off periods, single secure device authentication, a kill switch and the establishment of a 24-hour complaints channel.

Financial Institution Soundness and Resilience

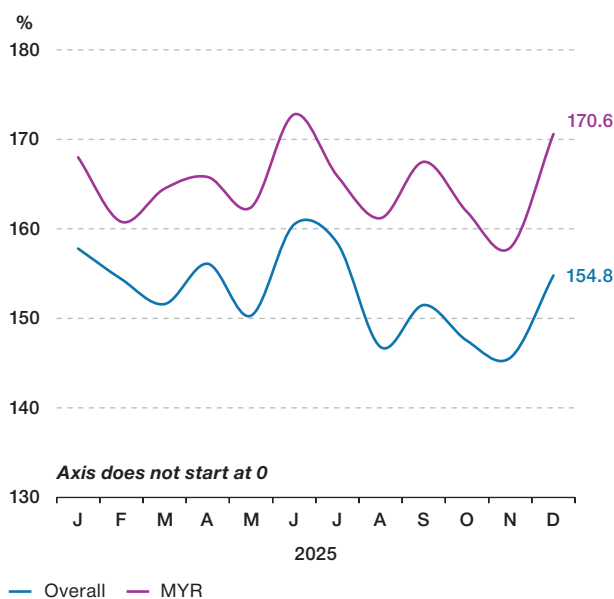
Financial Institution Soundness and Resilience

THE BANKING SECTOR

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

In the second half of 2025, the banking system liquidity and funding conditions remained resilient against liquidity shocks. The aggregate Liquidity Coverage Ratio (LCR) (Chart 2.1) and Net Stable Funding Ratio (NSFR) (Chart 2.2) remained healthy and above the regulatory minima at 154.8% and 115.7% respectively as at end-December 2025 (June 2025: 160.5% and 115.7% respectively). In addition to liquidity balances at Bank Negara Malaysia (BNM), banks continued to hold sizeable government bonds and sukuk, which can be pledged in the interbank market or with BNM for access to additional liquidity.

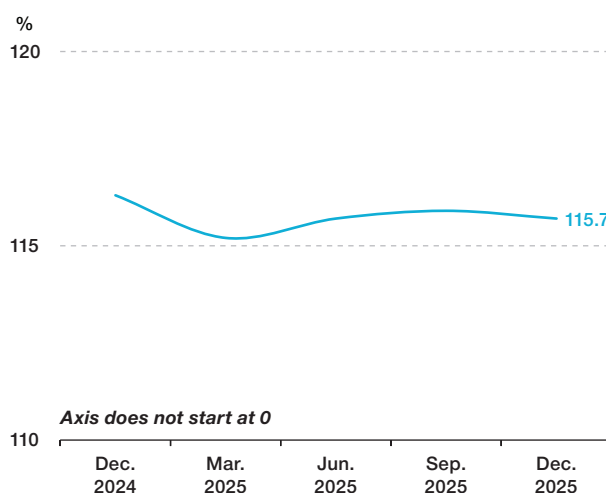
Chart 2.1: Banking System – Liquidity Coverage Ratio



Note: 1. MYR LCR is calculated based on high-quality liquid assets (HQLA) and expected net cash outflows denominated in ringgit.
2. Overall LCR is calculated based on HQLA and expected net cash outflows denominated in all currencies.

Source: Bank Negara Malaysia

Chart 2.2: Banking System – Net Stable Funding Ratio

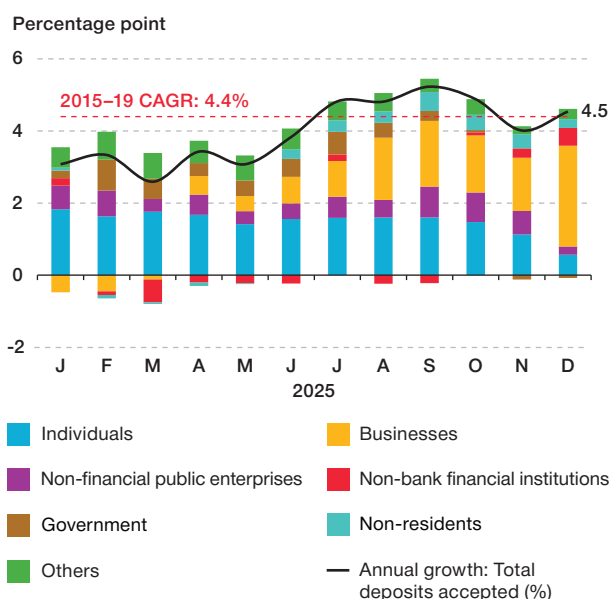


Source: Bank Negara Malaysia

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

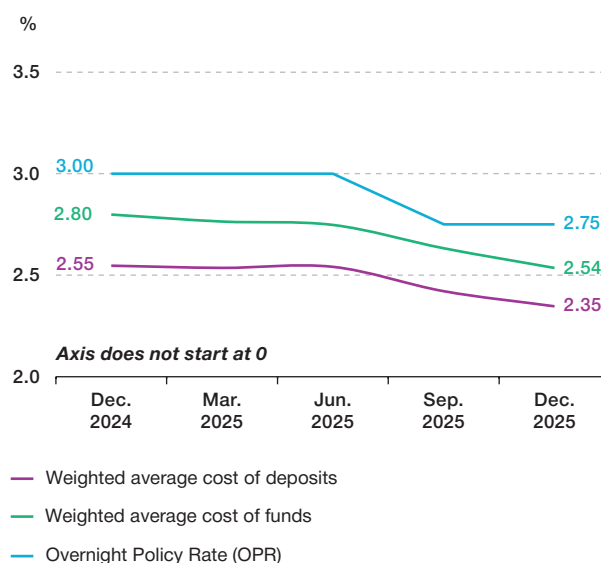
¹ Banking system deposits refer to deposits from resident individuals, businesses, NBFIs, the government and banking institutions, and non-residents. Starting from BNM's Financial Stability Review for First Half 2025, banking system deposits exclude repurchase agreements and thus, may not be directly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

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



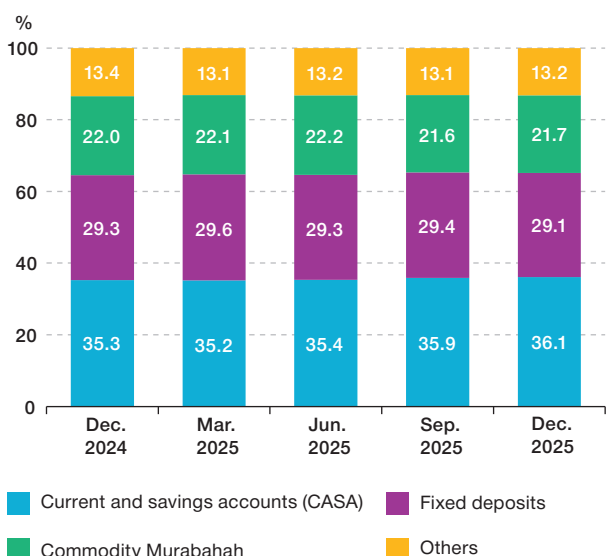
Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

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

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

Risks from banks’ external debt remained limited

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

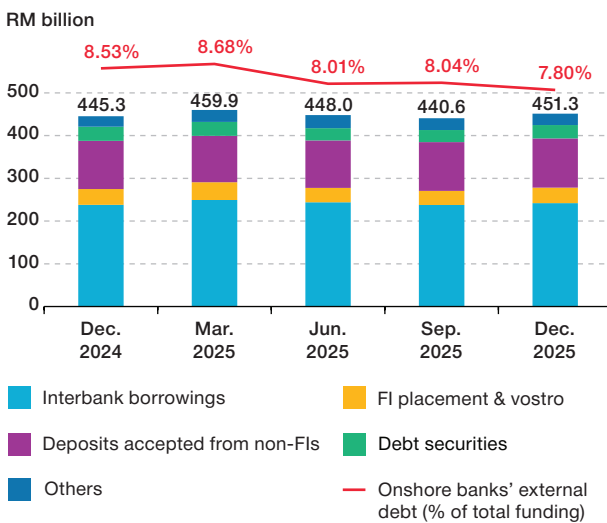
Funding and liquidity risks associated with banks’ external debt remained contained. As at December 2025, funds sourced from external counterparties accounted for only 7.8% of total banking system liabilities and equity. This indicates banks’ limited reliance on external sources to support their funding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

² Banks’ external debt-at-risk comprises financial institutions’ deposits, interbank borrowings and short-term loans from unrelated non-resident counterparties, which are considered more susceptible to sudden withdrawal shocks.

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

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

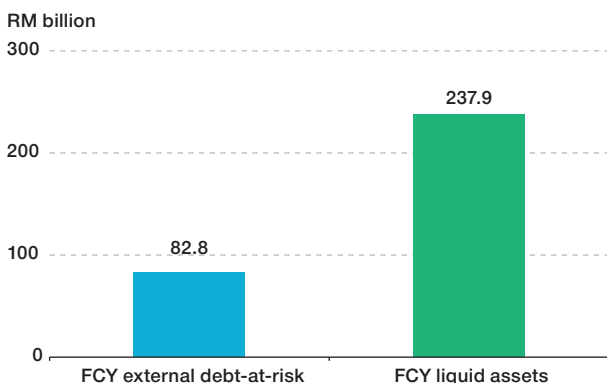
Chart 2.6: Banks' External Debt – by Instrument



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

Source: Bank Negara Malaysia

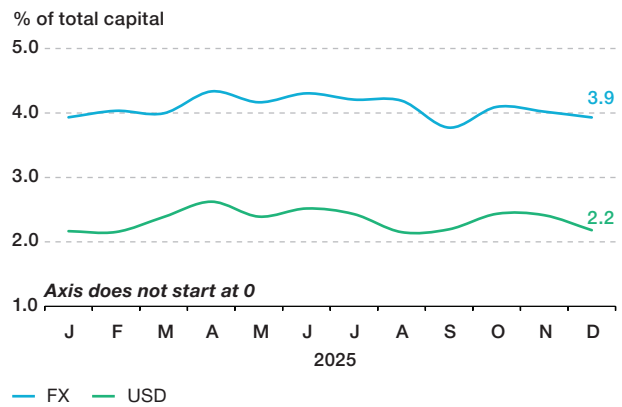
Chart 2.7: Banks' FCY External Debt-at-Risk and Liquid Assets



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

Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

Banking system asset quality remained sound

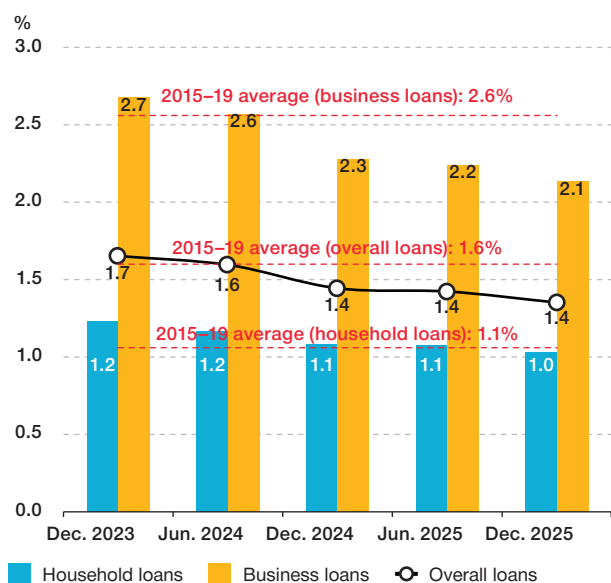
Despite a small segment of small and medium enterprise (SME) borrowers facing difficulty in servicing their loans, the gross impaired loans ratio remained stable at 1.4% as at December 2025 (June 2025: 1.4%) (Chart 2.9). Meanwhile, the share of Stage 2 loans decreased to 6.1% of total banking system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

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

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

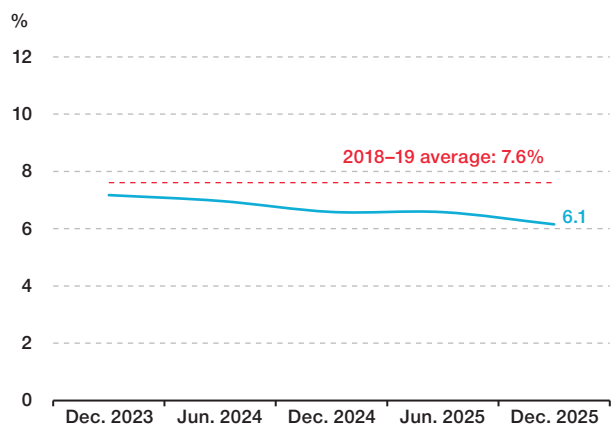
⁴ Management overlays are additional provisions set aside on top of provisions derived from ECL models. It reflects adjustments to account for data deficiencies or uncertainties not adequately captured by the ECL models.

Chart 2.9: Banking System – Gross Impaired Loans Ratio



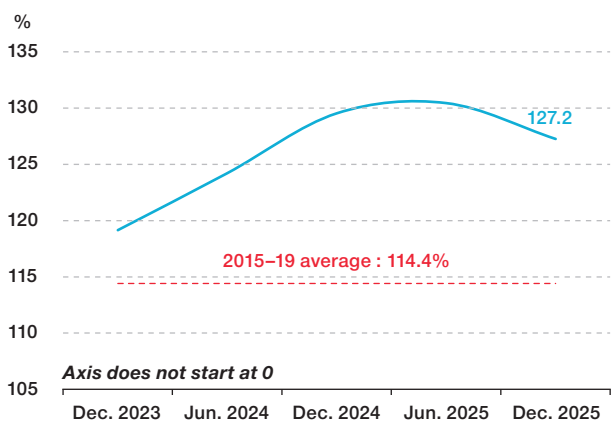
Source: Bank Negara Malaysia

Chart 2.10: Banking System – Stage 2 Loans Ratio



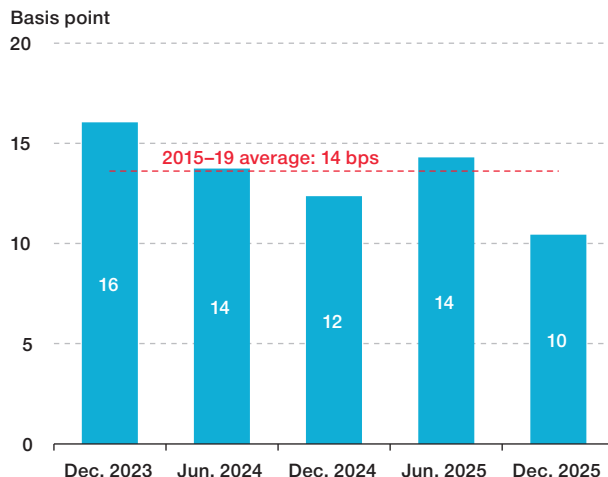
Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

Chart 2.12: Banking System – Annualised Credit Cost Ratio



Source: Bank Negara Malaysia

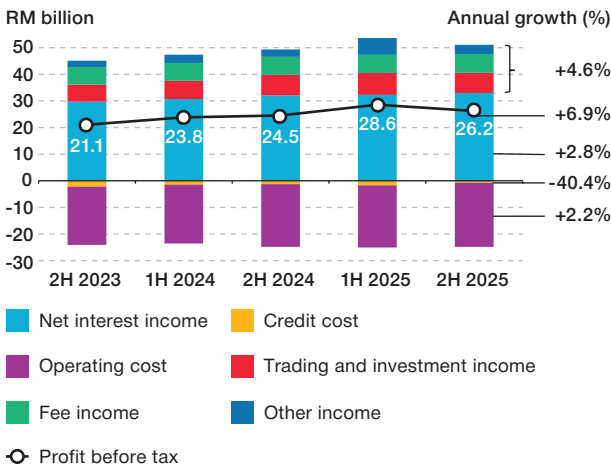
Banks’ profitability continued to be supported by interest income

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

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

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

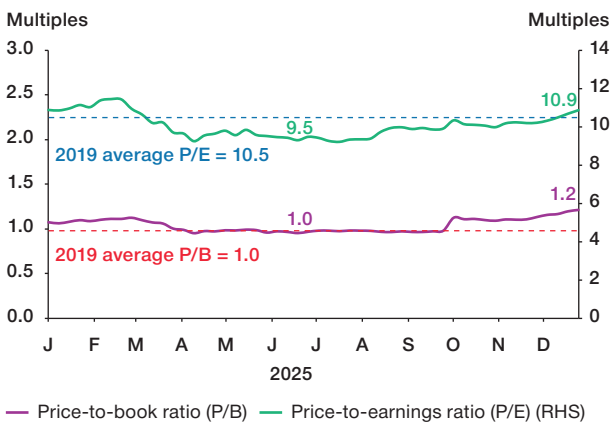
Chart 2.13: Banking System – Income, Cost and Profit before Tax



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

Source: Bank Negara Malaysia

Chart 2.14: Banking System – Price-to-Book and Price-to-Earnings Ratios of Publicly Listed Banks in Malaysia



Note: Refers to the median ratio of domestic banking groups in Malaysia.

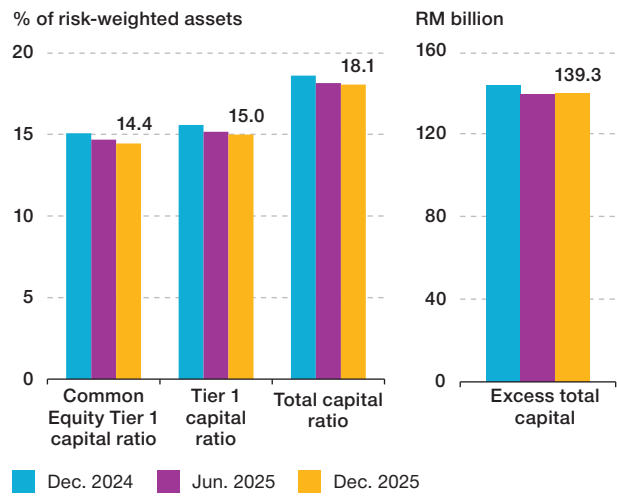
Source: Bloomberg

Banking system remained well-capitalised

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

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

Chart 2.15: Banking System – Capitalisation



Note: Excess total capital refers to total capital above the regulatory minimum, which includes the capital conservation buffer requirement of 2.5% and bank-specific higher minimum requirements.

Source: Bank Negara Malaysia

Contagion risk from domestic banking groups’ overseas operations continued to be limited

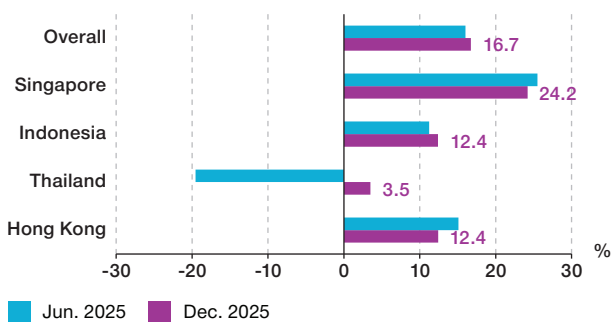
Overall, the overseas operations of domestic banking groups (DBGs) remained profitable in the second half of 2025 (Chart 2.16). Profitability continued to be driven mainly by operations in Singapore, which accounted for 54% of overseas operations’ assets (Chart 2.17), supported by sustained net interest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

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

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

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

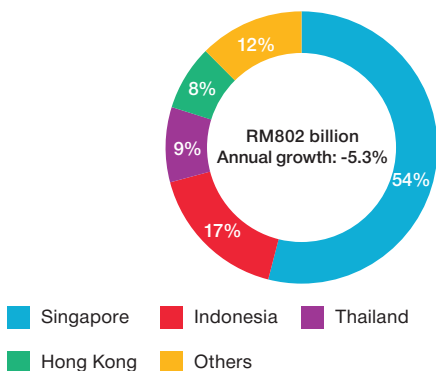
Chart 2.16: Banking System – Return on Equity of Overseas Operations by Jurisdiction



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

Source: Bank Negara Malaysia

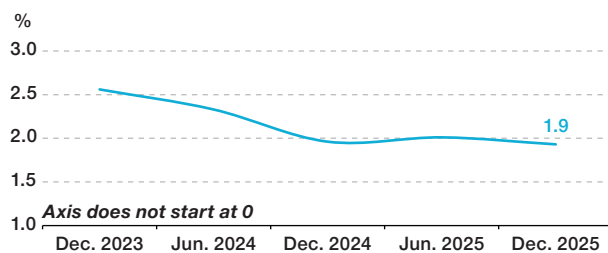
Chart 2.17: Banking System – Asset Profile of Major Overseas Operations



Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

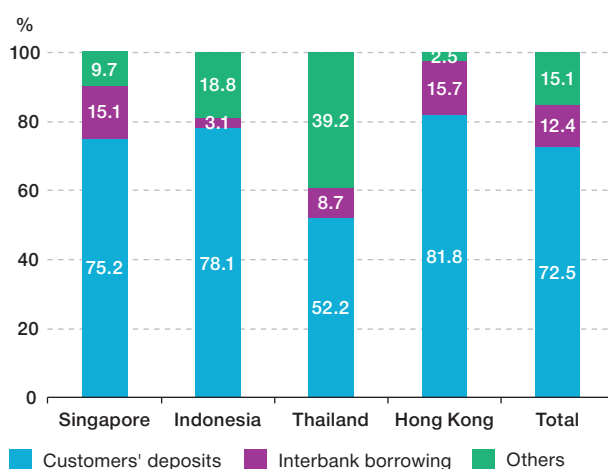
Chart 2.18: Banking System – Gross Impaired Loans Ratio of Overseas Operations



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

Source: Bank Negara Malaysia

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



Note: Figures may not add up due to rounding.

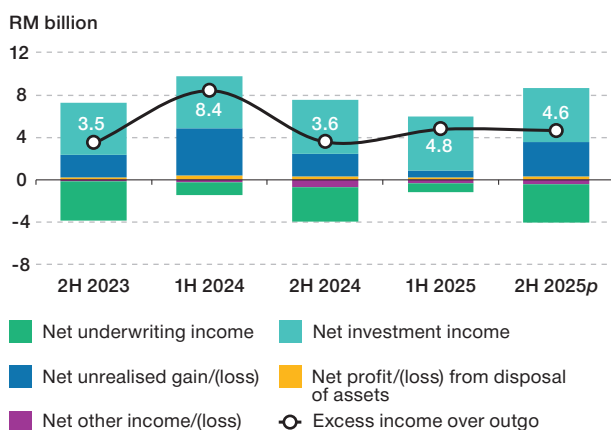
Source: Bank Negara Malaysia

THE INSURANCE AND TAKAFUL SECTOR

Overall profitability of insurance and takaful funds declined driven by weaker underwriting activity, despite better equity investment performance

The overall profitability of life insurance and family takaful funds, as measured by excess income over outgo (EIOO),⁷ declined slightly to RM4.6 billion in the second half of 2025 (1H 2025: RM4.8 billion) (Chart 2.20). Higher net unrealised gains from the recovery in the equity market were more than offset by a sharper increase in net underwriting losses, which rose to RM3.6 billion (1H 2025: RM0.9 billion; 2H 2024: RM3.2 billion). The increase in net underwriting losses was partly driven by seasonal factors such as lower premiums from the renewal of group policies, which typically occur in the first half of the year. Additionally, premium income continued to be affected by the interim measures implemented by the insurance and takaful industry to assist individuals who experienced premium revisions of their medical and health insurance/takaful (MHIT) policies/

Chart 2.20: Life Insurance and Family Takaful Fund – Composition of Income and Outgo



^p Preliminary

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.

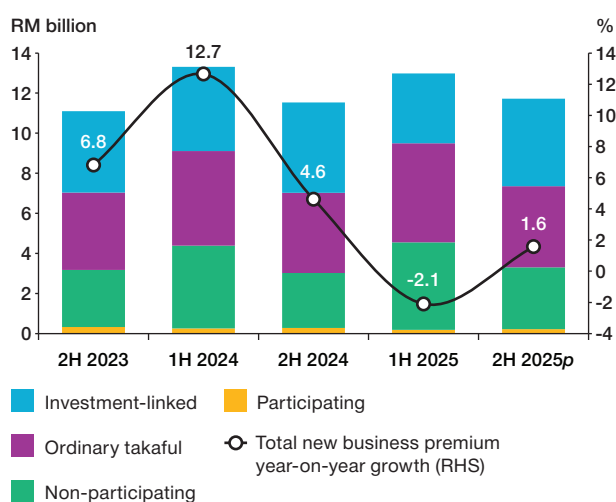
Source: Bank Negara Malaysia

certificates.⁸ The net underwriting losses were further compounded by higher medical payouts amounting to RM6.5 billion (1H 2025: RM5.7 billion; 2H 2024: RM6.2 billion) due to a rise in hospital admissions. Compared to the earlier half of 2025, hospital admissions rose across both individual and group medical policies following a spike in respiratory diseases such as influenza. A higher incidence of serious medical conditions and surgical procedures also contributed to the overall increase in medical utilisation.

New business premium⁹ in the second half of 2025 grew by 1.6% year-on-year (2H 2024: 4.6%; 2H 2023: 6.8%) (Chart 2.21). This was attributed to slower growth in new business premium for investment-linked (IL) products. Sales of IL products with MHIT riders continued to be weighed down by adverse sentiments surrounding it. Interest in IL products also declined, reflecting weaker appetite for investments amid financial market uncertainties and competition from alternative savings products. Notwithstanding these pressures, overall new business premium remained supported by steady contributions from the non-participating life insurance and ordinary family takaful segments.

As part of the ongoing RESET Strategy to address medical inflation and strengthen Malaysia's healthcare system, BNM, in collaboration with

Chart 2.21: Life Insurance and Family Takaful Sector – New Business Premium Growth and Product Composition



^p Preliminary

Source: Bank Negara Malaysia

⁷ 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.

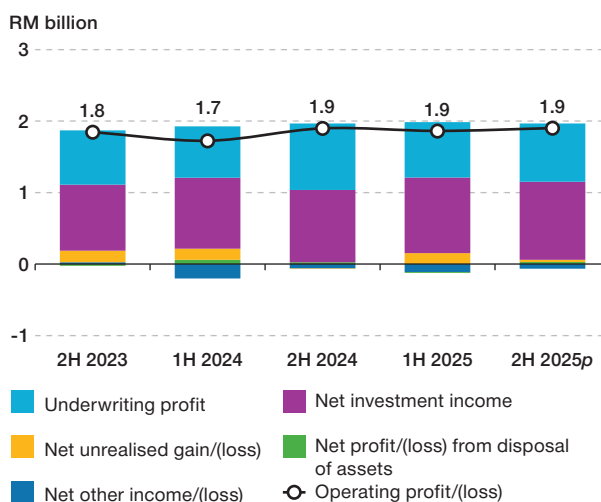
⁸ One such measure is the spreading of premium adjustments over a minimum period of three years for repricing exercises undertaken between 2024 and 2026.

⁹ Refers to both insurance premium and takaful contribution, unless stated otherwise.

the Ministry of Finance, the Ministry of Health and other key stakeholders, issued a White Paper on Base MHIT Plan in January 2026.¹⁰ The White Paper sets out the design of a standardised and voluntary medical protection plan, aimed at improving the affordability, transparency and long-term sustainability of private medical insurance and takaful coverage in Malaysia. Implementation is expected to commence with a pilot phase in the second half of 2026, with full market rollout targeted for early 2027. Further details on the RESET Strategy and Base MHIT Plan can be found in the section on ‘Catalysing Structural Reforms for Medical and Health Insurance/ Takaful’ in BNM’s Annual Report 2025.

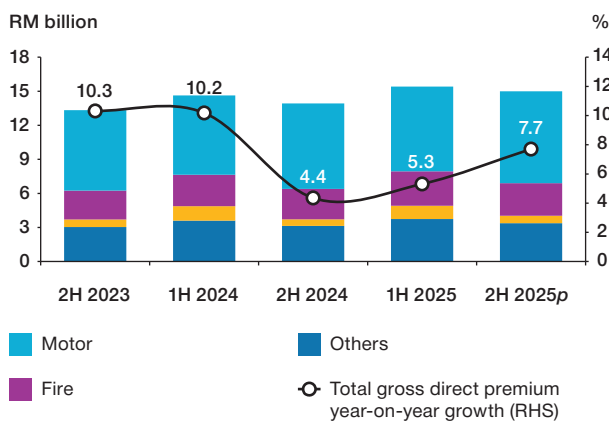
Operating profits of insurers and takaful operators (ITOs) in the general insurance and takaful sector remained stable at RM1.9 billion in the second half of 2025 (1H 2025: RM1.9 billion; 2H 2024: RM1.9 billion) (Chart 2.22). Despite softer bond investment performance, overall profitability was sustained by steady net underwriting income. The marginal increase in underwriting profits was primarily driven by the release of claims reserves, supported by higher third-party bodily injury claims settlements by general ITOs. The industry also recorded growth in motor premiums on the back of higher vehicle sales during the second half of the year (Chart 2.23), partly supported by front-loaded demand for completely built-up electric vehicles ahead of the tax holiday expiry in December 2025. General ITOs continued to demonstrate strong commitment in delivering their obligations under the digital roadside assistance initiative as BNM begins accepting applications for Phase 2B¹¹ of the phased liberalisation of motor and fire tariff.¹² This enhancement aims to further improve the motor claims experience and outcomes for consumers over time. Despite the ongoing shift, the motor segment’s net claims incurred ratio¹³ remained stable in the second half of 2025 at 68% (1H 2025: 70.3%; 2H 2024: 69%).

Chart 2.22: General Insurance and Takaful Fund – Composition of Operating Profits



p Preliminary
Source: Bank Negara Malaysia

Chart 2.23: General Insurance and Takaful Sector – Gross Direct Premium Growth and Product Composition



p Preliminary
Source: Bank Negara Malaysia

¹⁰ Refer to the ‘White Paper on Base MHIT Plan’ for more details.

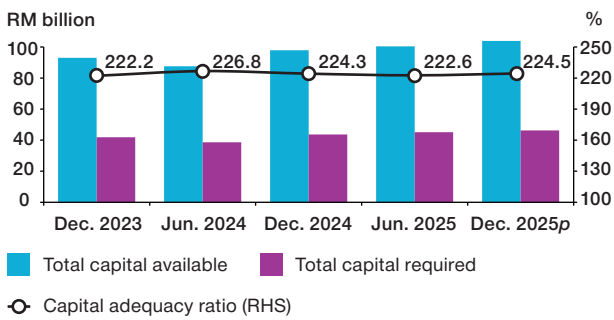
¹¹ ITOs that commit to reforms to improve the motor claims ecosystem will gradually be accorded greater pricing flexibility for motor and fire insurance/takaful products in two phases – Phase 2A, followed by Phase 2B – each allowing progressive adjustments to premium/takaful contribution limits.

¹² Refer to the section on ‘Advancing Reforms in Motor Insurance and Takaful Ecosystem’ in BNM’s Annual Report 2025 for more details.

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

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 225% in the second half of 2025 (June 2025: 223%), well above the regulatory minimum of 130% (Chart 2.24). Accordingly, aggregate capital buffers in excess of regulatory requirements also remained sound at RM43.8 billion (June 2025: RM41.8 billion).

Chart 2.24: Insurance and Takaful Sector – Capital Adequacy Ratio



p Preliminary

Source: Bank Negara Malaysia

Looking ahead, the investment performance of ITOs will remain sensitive to financial market conditions amid global economic and policy uncertainties, including those arising from the recent conflict in the Middle East. The conflict could also trigger supply chain disruptions, which may weaken ITOs’ underwriting performance by elevating claims costs. While the

expansion of data centre infrastructure is driving higher insurance coverage needs, this growth is unfolding against a backdrop of increasing climate risks. More frequent and unpredictable climate events could heighten claims volatility and necessitate more robust risk management and underwriting practices. Meanwhile, growth in new business premium is likely to be affected by ongoing public concerns surrounding MHIT products. Against these pressures, ITOs are actively engaging the RESET Strategy to place MHIT on a more sustainable footing and are developing new product offerings targeted at niche market segments. Notwithstanding these headwinds, ITOs are expected to remain resilient, with capital buffers comfortably above regulatory requirements.¹⁴

Beginning in 2026, BNM will implement the Malaysian Financial Reporting Standard (MFRS) 17 within its regulatory reporting framework. Insights derived from the standard will be progressively incorporated into the prudential assessments for ITOs. This transition is expected to strengthen alignment with prevailing accounting standards while strengthening the supervisory framework in support of BNM’s broader financial stability mandate. Throughout the implementation period, BNM will continue to engage closely with industry participants and other key stakeholders to ensure the smooth and effective incorporation of new complementary information and indicators into its supervisory review.

¹⁴ Refer to the section on ‘Assessing the Resilience of Financial Institutions’ for more details.

ASSESSING THE RESILIENCE OF FINANCIAL INSTITUTIONS

Stress testing remains a core element of BNM’s financial stability surveillance framework. Each year, BNM conducts a multi-year, top-down macro solvency stress test to evaluate the impact of severe and prolonged adverse macroeconomic, financial and liquidity conditions on banks, insurers and the broader financial system. In line with previous BNM Financial Stability Reviews, the latest macro solvency stress test applies two adverse scenarios over a three-year horizon from early 2026 to end-2028. These scenarios are designed to capture both a sharp but temporary deterioration in economic conditions, and a more moderate yet protracted downturn, reflecting heterogeneous paths of stress that could affect credit quality, profitability and capital buffers across the banking and insurance sectors. The scenarios are not forecasts of Malaysia’s economic outlook, but rather plausible tail-risk events intended to test the resilience of financial institutions under extreme but credible shocks.

The deep but temporary shock scenario (adverse scenario 1, AS1) involves a sharp contraction in domestic economic activity in 2026 followed by a rapid recovery in 2027 and a normalisation of GDP thereafter. In the moderate but more persistent downturn scenario (AS2), the situation is characterised by a milder yet prolonged contraction in 2026 and 2027 before economic conditions gradually recover beginning 2028. For both scenarios, GDP paths are calibrated between

the severe conditions observed during the Asian Financial Crisis and the COVID-19 pandemic. Key assumptions and shock parameters applied in AS1 and AS2 are summarised in Table 2.1.

These macroeconomic and financial shocks remain broadly aligned with those used in the 2025 exercise.¹⁵ The severity of assumptions under AS1 and AS2 reflects heightened global risk aversion arising from geopolitical risks that contribute to elevated inflationary pressures through supply chain disruptions and rising commodity prices amid global trade uncertainties. In domestic financial markets, bond yields are assumed to rise sharply, with increased momentum for a longer period under AS2. Equity market performance is also assumed to weaken, with the FBM KLCI losing about one-third of its value under both scenarios. A sharper rebound of the index is projected from early 2027 under AS1 while recovery remains more gradual under AS2. The ringgit is assumed to depreciate against the US dollar to levels below historical lows under both scenarios, with larger adjustments occurring in 2026 under AS1. Headline inflation is projected to surge, leading to OPR hikes in both scenarios despite the recessionary environment.

The stress test exercise applies a deliberately conservative set of assumptions, prioritising downside risk recognition over strict coherence with the broader macroeconomic scenario. The higher OPR is assumed to weigh on borrowers’ debt-servicing capacity without conferring any corresponding uplift to banks’ profitability. To capture potential confidence effects, banks exhibiting persistent financial weaknesses during the stress horizon are further subjected to additional liquidity shocks arising from adverse

Table 2.1: Macro Stress Test – Key Assumptions and Shock Parameters Applied Under Assumed Adverse Scenarios

Key Assumptions	AS1	AS2
Annual domestic real GDP growth	Up to -6.0%	Up to -3.5%
Annual unemployment rate	Up to 5.4%	Up to 6.0%
Market risk shocks - Increase in 10Y MGS yield - Increase in 10Y AAA corporate bond yield - Decline in FBM KLCI	Up to 300 basis points Up to 420 basis points Up to 30%	Up to 270 basis points Up to 370 basis points Up to 30%
OPR hike ¹	Up to 100 basis points	Up to 100 basis points
MYR depreciation against USD	Up to 30%	Up to 20%
Quarterly headline inflation ²	Up to 7.5%	Up to 5.4%

¹ The assumption of an OPR hike may not, in certain circumstances, be consistent with the broader macroeconomic scenarios but is assumed by design to account for potential downside risks.

² The assumption for the quarterly headline inflation reflects stress from global shocks that could exert upward pressure on commodity prices, particularly energy, and downward pressure on the ringgit.

Source: Bank Negara Malaysia

¹⁵ Refer to the macro solvency stress test exercise published in the BNM Financial Stability Review for Second Half 2024.

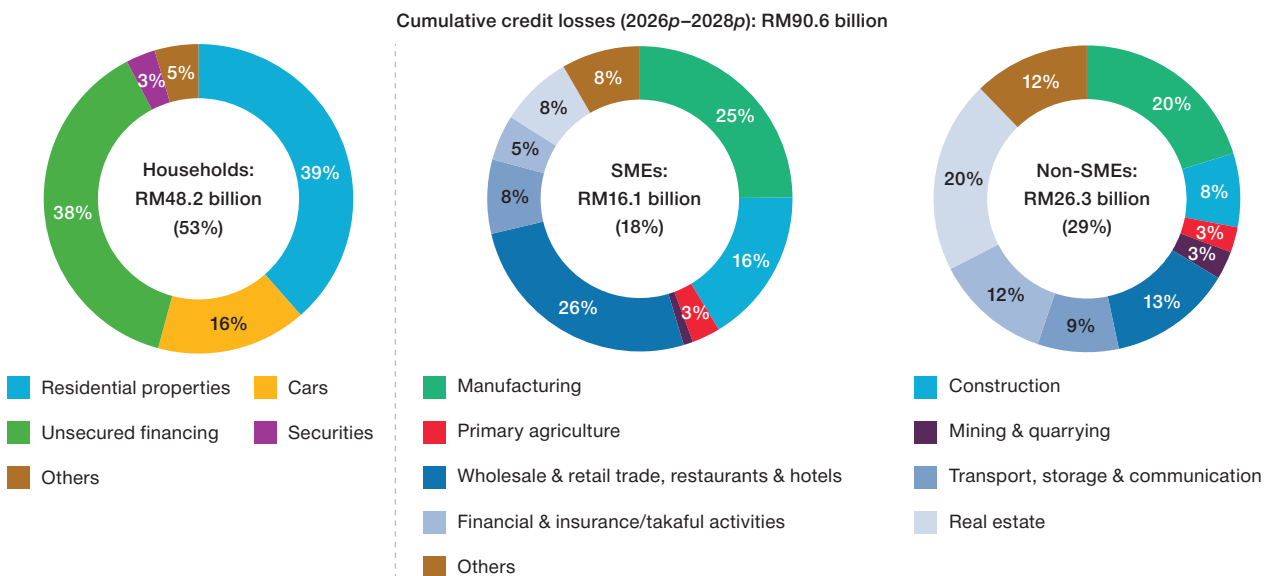
deposit outflows. The modelling framework also incorporates a strict cross-default assumption under which non-SME borrowers that fail the simulation are treated as triggering group-wide defaults, regardless of the financial strength of any member of the corporate group. A similar conservative cross-default assumption is applied to household borrowers where defaults are assumed to extend across all loan facilities. No improvements in loan staging are assumed throughout the stress horizon, even if borrowers' repayment capacity subsequently improves. In addition, the exercise does not incorporate any policy interventions or support measures for distressed borrowers or financial institutions. Projected losses from material overseas operations of domestic banking groups (DBGs) are also taken into account, ensuring a comprehensive assessment of group-wide vulnerabilities. For this purpose, the shock parameter will be adapted to reflect the situation in the host jurisdiction.

Financial institutions demonstrated financial resilience even under severe simulated shocks.

Under the severe macroeconomic conditions assumed in the stress scenarios, the Malaysian banking system is expected to remain resilient. Over the three-year stress test horizon, the banking system is projected to incur sizeable

losses arising mainly from higher credit risk and valuation adjustments on securities classified as fair value through other comprehensive income (FVOCI). The cumulative credit costs are estimated to be RM78.9 billion and RM90.6 billion under AS1 and AS2 respectively (equivalent to 59% and 63% of total losses respectively) (Chart 2.25). This estimated rise in credit losses results from an increase in defaults among household borrowers, particularly from impaired loans in the residential property loans segment. Several large corporates with existing financial vulnerabilities are also projected to default, while prolonged economic weakness continues to affect the debt-servicing capacity of SMEs. Credit losses from the overseas operations of DBGs are expected to account for 24.5% of total credit costs, driven mainly by defaults involving several large non-SME borrowers. Meanwhile, the projected sharp and rapid rise in bond yields is anticipated to lead to significant revaluation losses on banks' FVOCI bond holdings. These estimated losses amount to RM53.6 billion and RM49.7 billion under AS1 and AS2 respectively (or 40% and 35% of total losses under AS1 and AS2 respectively) (Chart 2.26). The valuation adjustments directly reduce banking system capital buffers throughout the horizon. In contrast, market risk losses from securities classified as fair value through profit or loss (FVTPL) remain contained. These FVTPL losses, driven by movements in bond, equity and foreign exchange positions, contribute 1.3% and 2.2% of total losses under AS1 and AS2 respectively.

Chart 2.25: Macro Stress Test: Banking System – Drivers of Cumulative Credit Losses Under Adverse Scenario 2

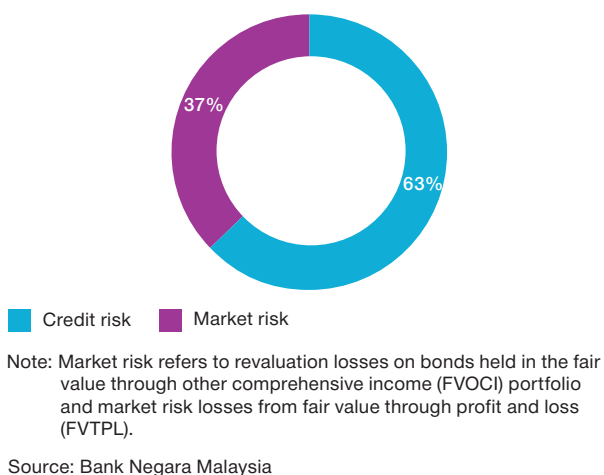


p Projected

Note: 1. (...) refers to % of overall cumulative credit costs.
2. Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Chart 2.26: Macro Stress Test: Banking System – Key Loss Drivers under Adverse Scenario 2



By the end of the stress horizon in 2028, overall impairments are projected to increase to 7.7% and 8.7% of total banking system loans under AS1 and AS2 respectively, driven mainly by household impairments (Chart 2.27). Household borrowers earning less than RM5,000 per month account for the largest share (59%) of borrowers at risk of defaulting given their thinner financial buffers (Chart 2.28). In value terms, however, these borrowers form a smaller share (34%) of new impairments, reflecting the lower loan amounts typically held by this income group relative to higher income borrowers. Meanwhile, vulnerabilities continue to be evident among borrowers with a debt service ratio exceeding 60%, who account for the bulk of new impairments. These borrowers constitute up to 74% of borrowers at risk of defaulting and 84% of new impairments by value. For businesses, SMEs account for the bulk (58%) of business impairments, with projected defaults rising more sharply under AS2 as compared to AS1. This is consistent with the erosion of SMEs' limited financial buffers during a prolonged economic downturn, which increases the likelihood of default. Meanwhile, non-SMEs, given their relative financial strength, accounted for the lower share (42%) of the projected increase in business impaired loans under AS2. The non-SMEs defaults were mainly attributed to several borrowers with pre-existing weak financials.

The aggregate banking system profitability is expected to decline sharply in the initial year of stress, driven mainly by higher credit costs. Net interest income would also fall significantly amid elevated funding costs without the

corresponding gains in interest income that would typically arise from OPR increases. In the following years, net interest income is expected to gradually recover, supporting a rebound in profits and a rebuilding of capital buffers. Losses incurred from overseas operations, while notable for large DBGs, are not expected to pose material risks to overall resilience at the group level. This reflects the healthy capital buffers maintained by the respective overseas entities.

Chart 2.27: Macro Stress Test: Banking System – Impaired Loans Ratio Under Adverse Scenarios 1 and 2

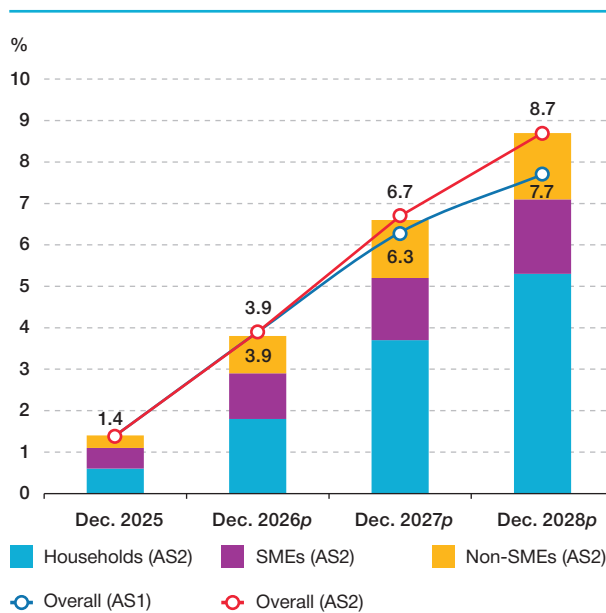
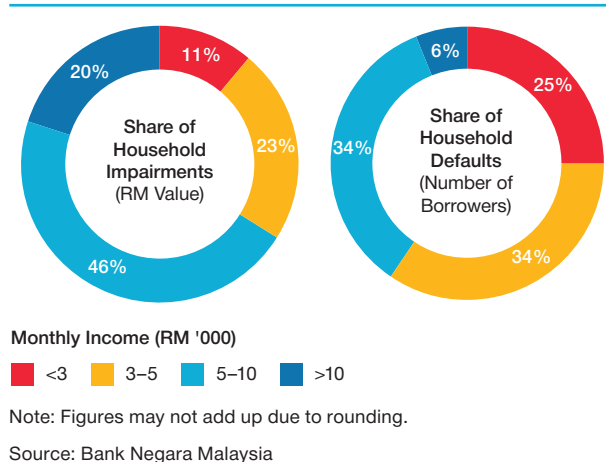


Chart 2.28: Macro Stress Test: Household Sector – Impairment Profile Under Adverse Scenario 2



Overall, the banking system capital ratios are projected to remain above the regulatory minima under both scenarios (Chart 2.29). Five banks,¹⁶ however, are projected to breach the minimum regulatory capital requirements. These banks, which account for less than 6% of total banking system assets, share common characteristics of higher impairment ratio, together with a larger proportion of FVOCI bonds exposed to revaluation losses (Chart 2.30). The post-shock capital shortfall of these banks accounts for less than 1.5% of total banking system capital. An additional 11 banks may require additional capital to maintain their internal capital targets under AS2. Nevertheless, these banks would continue to meet the minimum regulatory capital requirements.

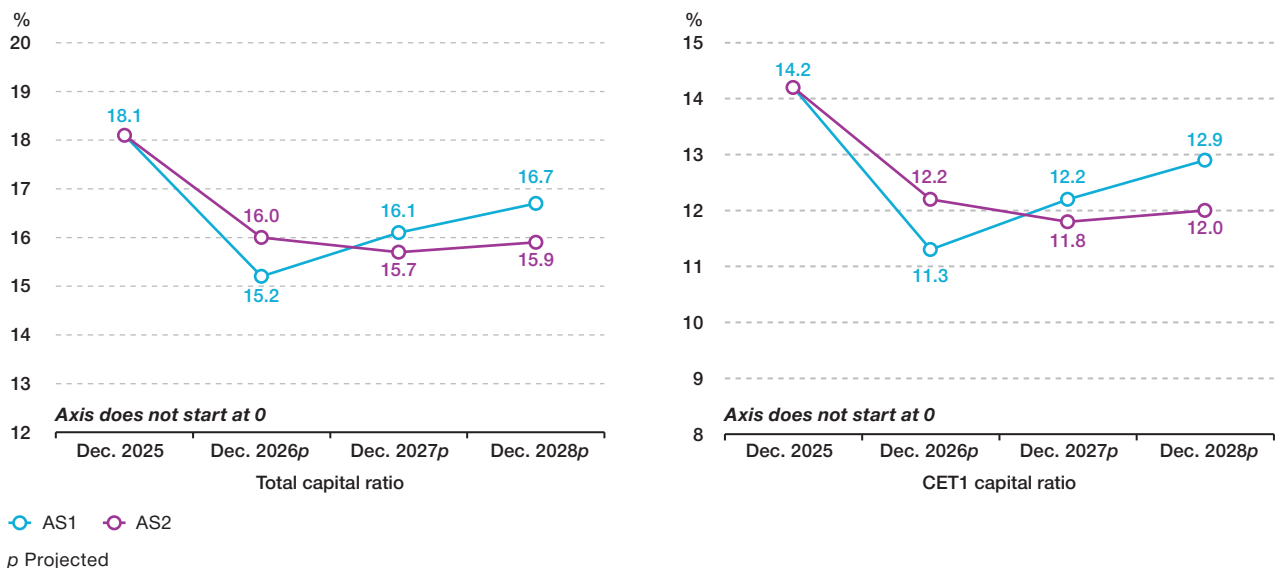
Banks facing persistent financial weaknesses¹⁷ or whose capital ratios have dipped below regulatory minima are also assumed to experience an additional liquidity shock¹⁸ in the form of deposit outflows. Under this scenario, most banks maintain sufficient stock of unencumbered high quality liquid assets (HQLA) to meet the heightened cashflow demands. This reflects the banking system’s strong starting liquidity position, with the system-wide LCR at a robust 154.8% as of December 2025. While stressed

LCR outcomes for some banks temporarily fall below the regulatory minimum,¹⁹ this reflects the severity of the stress scenario rather than weaknesses in their underlying liquidity positions. In line with regulatory requirements, banks may draw down their liquidity buffer and allow their LCR to fall below 100% during periods of stress, with an expectation that buffers are rebuilt within a reasonable timeframe. BNM continues to expect all banks to maintain prudent liquidity buffers under normal conditions.

Taken together, the solvency and liquidity stress test exercises continue to affirm that banks remain resilient in the face of severe macroeconomic, financial and liquidity shocks. Banks are expected to retain sufficient capacity to support lending to the economy even during periods of downturn.

The macro solvency stress test for insurers incorporates similar AS1 and AS2 scenarios, with additional insurance-specific assumptions. These assumptions, updated for recent developments including interim measures by insurers to limit premium revisions to medical and health insurance business, remain largely consistent with those applied in the 2025 exercise (Table 2.2). Under both scenarios, the insurance

Chart 2.29: Macro Stress Test: Banking System – Capital Ratios Under Adverse Scenarios 1 and 2



Note: Capital ratio data shown in this section may be different from data cited in 'The Banking Sector' section as the macro stress test exercise was conducted using December 2025 preliminary data.

Source: Bank Negara Malaysia

¹⁶ Refers to the banking group or standalone bank if it does not belong to a larger banking group.

¹⁷ Refers to banks that incurred at least two consecutive quarters of losses, or a minimum two years of annual losses.

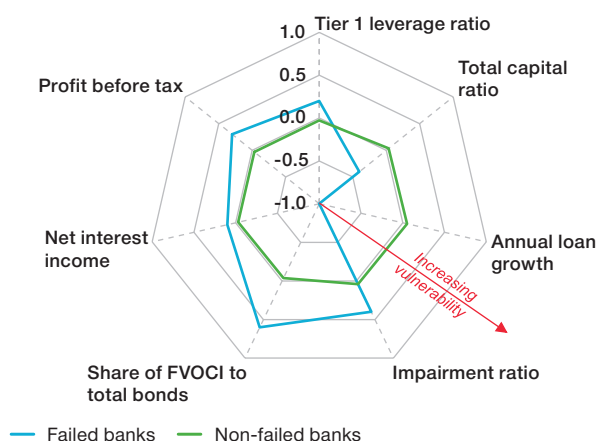
¹⁸ Stressed outflows applied on the deposits of each bank are assumed to be at least 16% based on benchmarking of recent global distressed banks’ experience. Additional transmission channels are incorporated this year to reflect greater global uncertainty.

¹⁹ Under a severe liquidity shock scenario, 14 banks are projected to record LCR levels below 100%.

sector is assessed to maintain an aggregate capital adequacy ratio (CAR) above the regulatory minimum of 130% (Chart 2.31). Market risk remains as the primary loss driver for both life and general insurers, reflecting the impact of higher bond yields and weaker equity market performance on their significant financial asset holdings (Chart 2.32). The updated insurance specific assumptions resulted in more subdued projected premium increases despite higher claims, particularly for the existing medical portfolio. As a result, life insurers are expected to sustain net underwriting losses throughout the stress horizon. Consequently, insurance risk emerged as a more significant driver of losses compared to the previous year's stress test (2026: 39%; 2025: 35%). Notwithstanding this, the downward revaluation of liabilities due to the increase in bond yields is expected to partly soften the impact on CAR.

Although the insurance sector remains broadly resilient, outcomes at the individual insurer level vary depending on investment strategies and

Chart 2.30: Macro Stress Test: Banking System – Common Characteristics of Failed Banks in Pre-Stress Position (2025)



Note: 1. Failed banks refer to banks which would breach the minimum regulatory capital requirements under stress test scenario.
 2. Chart values are standardised using z-score, where larger values along a given axis signify more risks along that characteristic.
 3. 'Tier 1 leverage ratio' refers to Tier 1 capital divided by total assets.

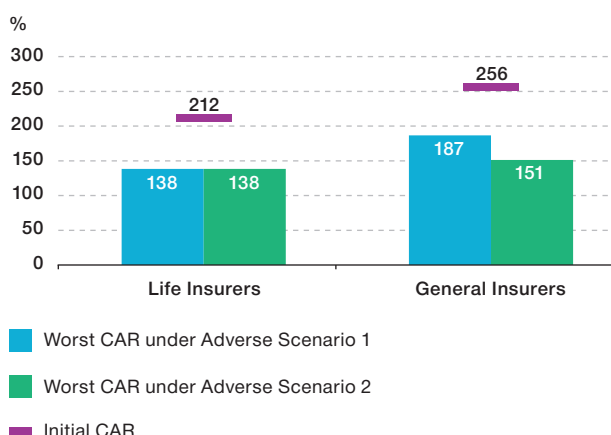
Source: Bank Negara Malaysia

Table 2.2: Macro Stress Test – Additional Assumptions in Insurance Stress Test

Life insurance medical and health premiums	Lower premium income growth due to constraints in life insurers' ability to reprice existing medical and health policies.
Payouts for medical and health insurance policies	Elevated claims payouts from medical and health insurance policies due to increasing incidence rate and size of claims, including surrenders.
General insurance premiums	Lower premium income due to intensified competition in the motor and fire segments and the hardening of the reinsurance market due to lower global reinsurance capacity.
General insurance claims	Elevated general insurance claims and expenses attributable to higher motor parts costs due to supply disruptions and increased import costs, coupled with significant flood events every year-end.

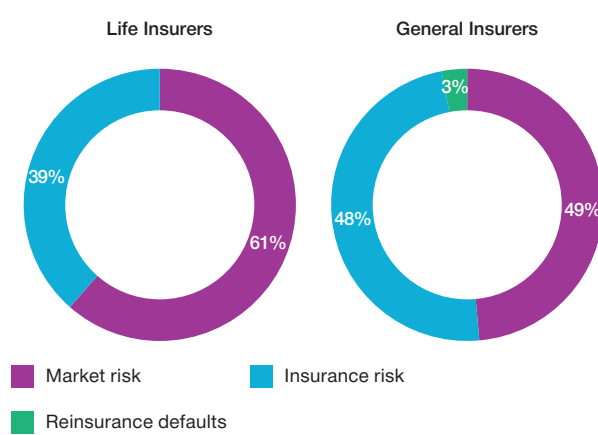
Source: Bank Negara Malaysia

Chart 2.31: Macro Stress Test: Insurance Sector – CAR Under Adverse Scenarios 1 and 2



Source: Bank Negara Malaysia

Chart 2.32: Macro Stress Test: Insurance Sector – Loss Drivers Under Adverse Scenario 1



Source: Bank Negara Malaysia

business profiles. Three life insurers, accounting for 16% of total insurance assets, are projected to breach the regulatory minimum following the shock, with the capital shortfall accounting for 7% of total insurance capital. Of these, two insurers are expected to remain below the regulatory minimum throughout the stress horizon. Constraints on premium adjustments despite higher medical claims have weighed on the pace of life insurers' recovery under the stress scenario. This highlights the importance of structural reforms in managing medical cost inflation. Such measures would support the long-term sustainability and affordability of MHIT products, as well as enhance insurers' financial resilience and safeguard consumers' access to financial protection.

For general insurers, capital positions are expected to remain resilient under assumptions of softer premium income and elevated claims across the motor and fire business segments. These assumptions reflect the adverse impact of rising claims frequency and severity, alongside intensified competition among insurers aimed at preserving or expanding their market share. The stress test exercise also incorporates potential spillovers from geopolitical developments that could contribute to a hardening of global reinsurance conditions. Under the stress scenarios, six general insurers, accounting for approximately 6% of total insurance assets, are projected to breach the regulatory minimum following the shock, with the capital shortfall accounting for 4% of total insurance capital.

Table A.1

Key Financial Soundness Indicators

	As at end				
	2H 2023	1H 2024	2H 2024	1H 2025	2H 2025 ^p
	% (or otherwise stated)				
Banking System					
Total Capital Ratio	19.0	18.5	18.6	18.2	18.1
Tier 1 Capital Ratio	15.9	15.4	15.6	15.2	15.0
Common Equity Tier 1 Capital Ratio	15.4	14.9	15.1	14.7	14.4
Return on Assets (based on profit before tax) ¹	1.2	1.3	1.3	1.5	1.5
Return on Equity (based on profit before tax) ¹	11.2	12.1	12.1	13.8	13.1
Return on Equity (based on profit after tax) ¹	8.7	9.2	9.3	10.8	10.2
Liquidity Coverage Ratio	161.0	155.2	160.7	160.5	154.8
Net Impaired Loans Ratio ²	1.1	1.0	0.9	0.9	0.9
Capital Charge on Interest Rate Risk in the Trading Book to Capital Base	1.0	1.2	1.3	1.2	1.3
FX Net Open Position to Capital Base	3.8	4.7	3.8	4.4	3.9
Equity Holdings to Capital Base	1.4	2.2	2.1	2.2	3.3
Insurance and Takaful Sector					
Capital Adequacy Ratio	222.2	226.8	224.3	222.6	224.5
Life Insurance and Family Takaful					
Excess Income over Outgo (RM billion) ³	3.5	8.4	3.6	4.8	4.6
New Business Premium / Contribution (RM billion)	11.5	14.2	12.0	13.9	12.2
Capital Adequacy Ratio	211.2	219.9	215.5	213.7	214.2
General Insurance and General Takaful					
Operating Profit (RM billion)	1.8	1.7	1.9	1.9	1.9
Underwriting Profit (RM billion)	0.8	0.7	0.9	0.8	0.8
Gross Direct Premium / Contribution (RM billion)	13.3	14.6	13.9	15.4	15.0
Claims Ratio	56.7	57.7	56.4	57.9	56.9
Capital Adequacy Ratio	253.0	242.5	248.1	245.1	252.2
Household (HH) Sector					
HH Debt (RM billion)	1,534.7	1,573.5	1,625.2	1,666.4	1,715.6
HH Financial Assets (RM billion)	3,176.8	3,300.1	3,452.3	3,478.5	3,665.0
HH Debt-to-GDP Ratio	84.1	83.8	84.1	84.8	84.8
HH Financial Assets-to-Total HH Debt Ratio	207.0	209.7	212.4	208.7	213.6
HH Liquid Financial Assets-to-Total HH Debt Ratio	132.3	135.2	134.3	130.4	131.3
Impaired Loans Ratio of HH Sector (Bank + DFI Loans) ⁴	1.2	1.2	1.1	1.1	1.0
Impaired Loans Ratio of HH Sector (Non-Bank Loans) ⁵	1.7	1.8	1.8	2.0	2.1
Business Sector					
Return on Assets	2.5	2.6	2.8	2.5	2.4
Return on Equity	4.2	4.5	4.8	4.3	4.3
Debt-to-Equity Ratio	20.6	21.2	23.1	21.4	21.2
Interest Coverage Ratio (times)	6.2	6.3	7.0	6.4	6.4
Operating Margin	7.3	7.5	8.2	7.4	7.5
Impaired Loans Ratio of Business Sector ⁴	3.5	3.5	3.1	3.1	2.8
Development Financial Institutions⁶					
Lending to Targeted Sectors (% change)	5.9	5.3	5.6	7.8	5.8
Deposits Mobilised (% change)	-0.1	4.3	7.2	2.9	6.5
Impaired Loans Ratio	5.6	6.0	5.6	5.6	4.5
Return on Assets	1.3	1.4	1.2	1.3	1.1

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 and loans classified as purchased or originated credit-impaired financial asset 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 and loans classified as purchased or originated credit-impaired financial asset 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.

^p Preliminary

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				
	2H 2023	1H 2024	2H 2024	1H 2025	2H 2025 ^p
Islamic Banking System	RM million (or otherwise stated)				
Total Assets ¹	1,398,193.1	1,440,593.4	1,516,590.2	1,570,709.6	1,616,545.4
% of total assets of entire banking system ¹	36.6	36.9	38.0	38.4	38.7
Total Financing ¹	1,049,910.7	1,083,599.8	1,133,034.6	1,173,317.4	1,219,815.6
% of total loans / financing of entire banking system ¹	45.6	45.9	46.6	47.2	48.0
Total Deposits and Investment Accounts ¹	1,121,986.4	1,148,306.9	1,197,989.6	1,232,735.8	1,268,378.1
Total Deposits ¹	968,569.3	990,501.3	1,029,031.3	1,052,311.7	1,082,658.4
Total Investment Accounts ¹	153,417.1	157,805.6	168,958.2	180,424.1	185,719.6
% of total deposits and investment accounts of entire banking system ¹	42.0	42.3	43.2	43.5	43.6
	%				
Total Capital Ratio	18.0	17.9	17.9	18.1	18.3
Tier 1 Capital Ratio	14.8	14.6	14.8	14.9	15.1
Common Equity Tier 1 Capital Ratio	14.0	13.9	14.0	14.1	14.3
Return on Assets	1.0	1.1	1.1	1.1	1.1
Net Impaired Financing Ratio	1.1	1.0	1.0	1.0	1.0
Takaful Sector	RM million (or otherwise stated)				
Takaful Fund Assets	55,631.9	59,749.8	59,654.0	62,536.3	65,239.6
Family	48,476.1	52,274.9	51,620.1	54,237.9	56,490.1
General	7,155.8	7,474.9	8,033.9	8,298.4	8,749.5
% of insurance and takaful industry	14.0	14.2	13.9	14.3	14.4
Net Contribution Income	8,310.7	9,756.8	9,239.9	10,289.1	9,768.1
Family	6,217.6	7,527.1	6,969.8	7,873.9	7,195.8
General	2,093.1	2,229.6	2,270.1	2,415.3	2,572.2
% of insurance and takaful industry	22.1	24.7	23.1	25.3	23.6
Family Takaful New Business Contribution	4,363.4	5,228.6	4,503.4	5,306.8	4,433.3
General Takaful Gross Direct Contribution	2,764.4	2,960.4	2,940.9	3,247.4	3,387.0
Claims Ratio (%)	62.2	63.6	64.3	63.5	61.5

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

^p Preliminary

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

Source: Bank Negara Malaysia