



Media Release

RAM Ratings affirms Bank Simpanan Nasional's AAA rating

RAM Ratings has affirmed Bank Simpanan Nasional's (BSN or the Bank) AAA/Stable/P1 financial institution ratings and the AAA/Stable rating of its RM3.5 billion Islamic Medium-Term Notes Sukuk Wakalah Programme (2021/-).

The ratings factor in a very high likelihood of government support. Wholly owned by the Ministry of Finance, BSN assumes the important public policy role of serving underserved and unserved consumer segments. All deposits with the Bank are guaranteed by the government in accordance with Section 20 of the Bank Simpanan Nasional Act 1974. Crucially, it is still the only designated payee bank for the government's cash aid to recipients without bank accounts.

BSN's gross impaired loan (GIL) ratio, adjusted to exclude financing funded by government grants, rose to 1.7% as at end-June 2024 (end-December 2022: 1.2%, industry: 1.6%). The rise was primarily driven by impairments in the personal financing (PF) portfolio (38% of total GIL increase), particularly the Bank's EPF Account 2 Support Facility (FSA2) financing and non-salary deductible PF. As EPF's FSA2 financing scheme ended on 4 April 2024, credit deterioration arising from this portfolio should be contained. Asset quality also weakened due to deterioration in the mortgage and micro financing portfolios, which were largely extended to the B40 segment, a group vulnerable to rising living costs.

The Bank's sizeable salary-deductible PF portfolio to civil servants (32% of total financing) is expected to limit further credit deterioration. As at end-June 2024, the GIL ratio for salary-deductible PF was 0.6%, well below the industry average of 2.5%. With an adjusted GIL coverage (including regulatory reserves) of 116%, the Bank has adequate buffer against potential losses. The Bank's GIL ratio is expected to remain around 1.7% by end-2024, supported by recent measures to tighten credit underwriting for vulnerable segments such as raising the minimum monthly salary requirement for certain professionals, and intensifying recovery efforts including increased post-disbursement site visits for micro-SME borrowers.

BSN's profitability has been constrained by a high operating cost structure, with a cost-to-income ratio averaging over 75% in the last three fiscal years. This is due to the extensive branch network and large workforce required to support its financial inclusion agenda. The Bank's net interest margin (NIM) narrowed to 2.58% in FY Dec

2023 due to higher deposit costs, lower share of current account and savings accounts, and intense competition for deposits. In 1H FY Dec 2024, NIM further shrank to 2.34%. Consequently, the Bank's return on risk-weighted assets stood at 1.2% during the period (fiscal 2023: 1.9%). Management anticipates NIM to improve in FY Dec 2025, driven by a better funding mix and diversification of funding sources.

BSN's Basel 1 tier-1 capital and total capital ratios stood at a respective 13.5% and 19.3% as at end-June 2024 (end-December 2022: 15.5% and 24.0%) due to robust financing growth of 12.4% in the 18-month period. The Bank anticipates a further decline in capital levels by end-2024, following a special dividend, regular annual dividends and an increase in risk-weighted assets.

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