

Moody's: Malaysian Banks Can Withstand Scenario Worse Than 2008-09 Financial Crisis
Bernama
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SINGAPORE, March 27 (Bernama) -- Malaysian banks are well capitalised and able to withstand a scenario worse than the 2008-09 global financial crisis, says Moody's Investors Service.

It said the results of the stress test conducted by Bank Negara Malaysia (BNM) also showed the banks to be credit positive and resilient to severe credit and market losses.

In its Credit Outlook today, Moody's also said according to BNM's adverse stress test report issued on March 19, the aggregate total capital ratio of Malaysian banks would be 10 per cent under the central bank's adverse stress scenario, while their common equity Tier 1 (CET1) ratio would be seven per cent.

BNM's scenario included severe loss assumptions such as up to a six-fold increase in probability of default to around 11.6 per cent versus current impaired loan ratios, a 330-basis-point increase in yields on government bonds and a severe drop in real estate prices of up to 30 per cent.

As of Sept 30, 2013, Moody's said its rated Malaysian commercial banks had an average CET1 ratio of 9.5 per cent, way above Malaysia's Basel III minimum requirement of 4.0 per cent for 2014.

The rating agency noted banks such as HSBC Bank Malaysia Bhd (A3 positive, C-/baa1 stable), Malayan Banking Bhd (A3 positive, C/a3 stable) and Hong Leong Bank Bhd (A3 positive, C-/baa1 stable) would better withstand unexpected losses owing to their higher capital buffers.

But it said this assessment does not consider the relative riskiness of their loan books, which the central bank's stress test did take into account.

Moody's said BNM's stress test results are consistent with its own stress test and support its "stable" outlook on Malaysian banks.

Under its adverse scenario, Moody's said the aggregate total capital ratio for Malaysian banks fell to around 12.5 per cent from 14.4 per cent as of the end of December 2013, while the CET1 ratio decreased to 10.3 per cent from 12.1 per cent over the same period.

Under this scenario, Moody's assumes an average probability of default of eight per cent and a loss-given default of 40 per cent for business loans and up to 100 per cent for consumer loans over six quarters.

It said the capitalisation of Malaysian banks is particularly sound in the context of their low impaired loans ratio, which was a stable 1.8 per cent at Jan 31, 2014 and fully covered by reserves.

However, as in other Asean markets, the asset quality of Malaysian banks' is vulnerable to a shift in interest rates and the negative effect of higher rates on borrowers.

The leverage of Malaysian households is a particular risk. At 87 per cent of GDP at the end of 2013, it was the highest among Asean countries.

However, based on BNM's and our stress test results, Malaysian banks have enough capital to withstand significantly higher default rates and price corrections.

The rating agency noted that BNM's stress test, while credible, spans a three-year period, while there is a risk that a downside scenario could unfold more quickly, causing bank balance sheet problems to materialise faster.

It said this would result in banks having to absorb credit costs more quickly and without the benefit of a longer stress test horizon, which takes into account higher retained earnings generated by the banks.

Moody's said for example, the recent stress test by the US Federal Reserve had a two-year horizon, while its scenario for Malaysia usually looks 1.5 years ahead.

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