



Malaysian Banks Outlook 2023:

Prepared For Tougher Conditions

S&P Global
Ratings

Nikita Anand

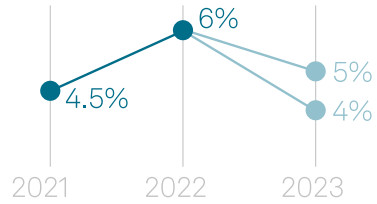
Ivan Tan

Geeta Chugh

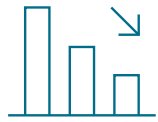
April 11, 2023

This report does not constitute a rating action

Key Projections



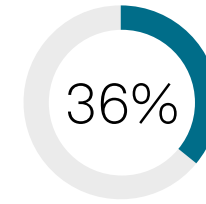
4%-5%
credit growth



5-10 bps
decline in net
interest margins



15.6%
healthy tier 1
capital ratio



high household deposits
limit contagion risks



50-60 bps
increase in NPLs
over 2023 and 2024



return on average assets



decline in margins will
be balanced by tax rate
normalization

NPL--Nonperforming loan. Source: S&P Global Ratings.

Key Risks



Sharper than expected economic slowdown



High corporate and household leverage



Significant escalation of contagion risks amid global turmoil

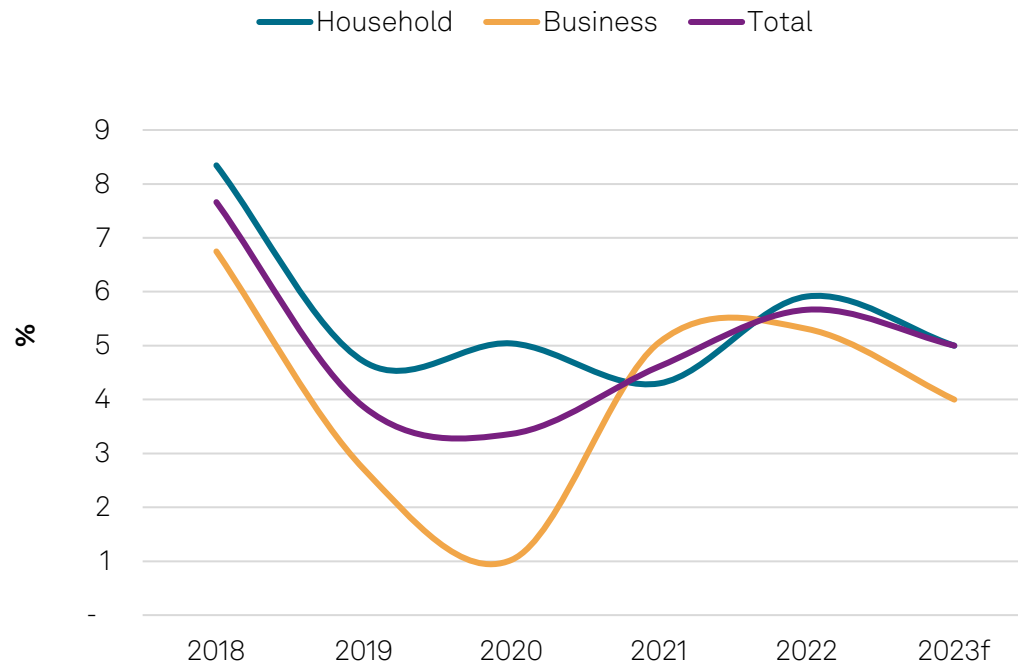


Steep deposit price competition will squeeze profitability

Credit Growth Will Slow

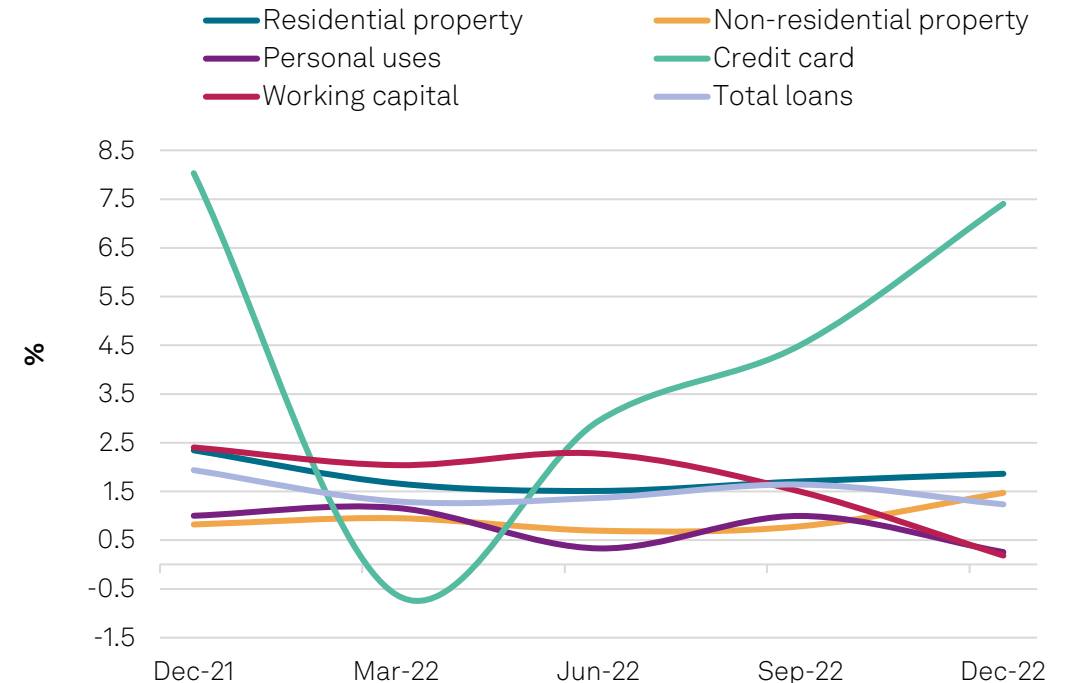
Rising interest rates and funding costs will drag on credit demand

Credit Growth Could Slow To 4%-5%



f--Forecast Source: BNM, S&P Global Ratings.

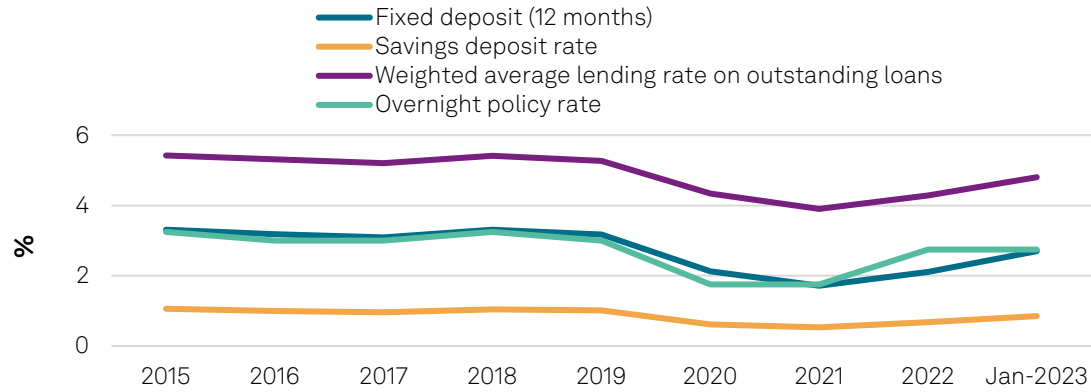
Growth Rates Are Moderating Across Most Segments



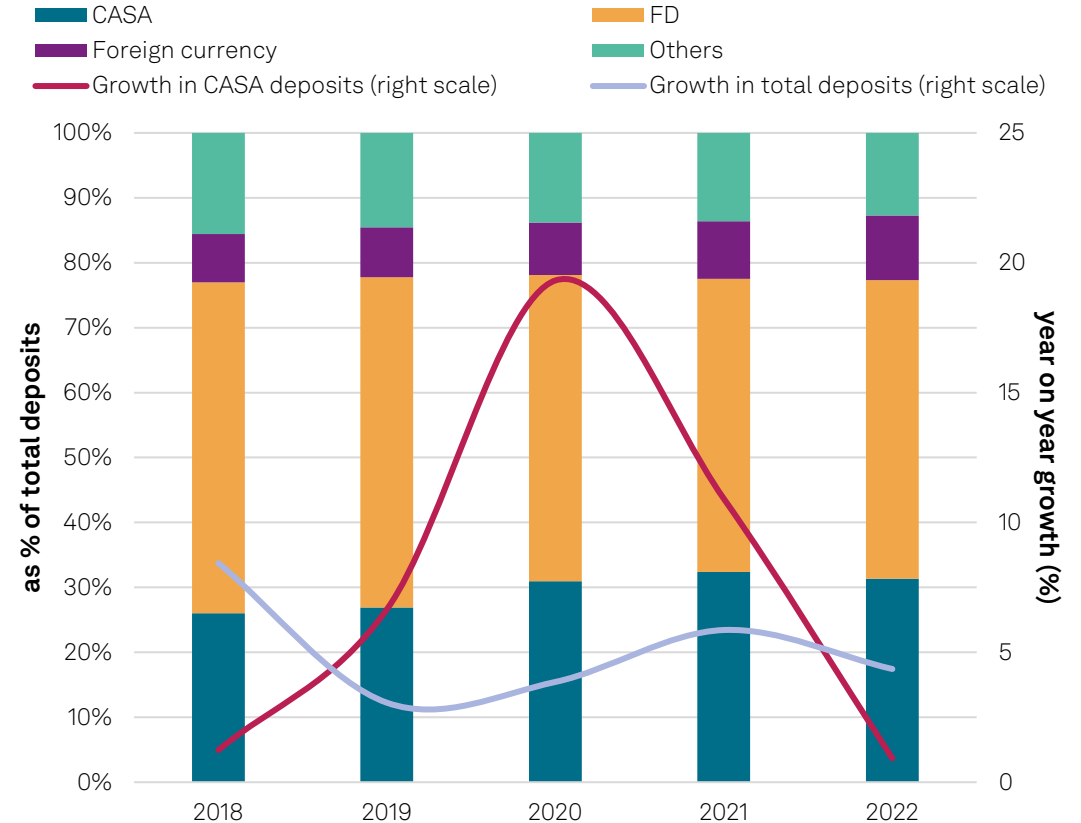
Note: Quarter on quarter change in loans outstanding. Source: BNM, S&P Global Ratings.

Funding And Liquidity Will Become More Expensive

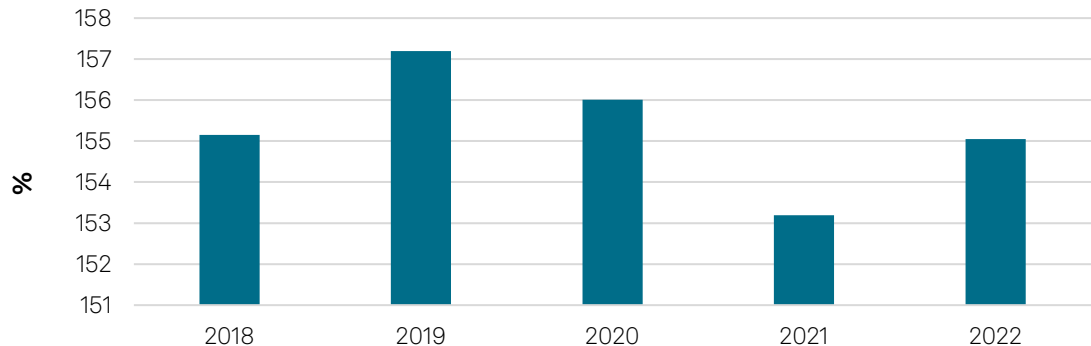
Fixed Deposit Rates Will Keep Pace With Policy Rates



CASA Growth Has Tapered Off With Strong Term Deposit Flows



LDR Rising Toward Pre-Pandemic Levels



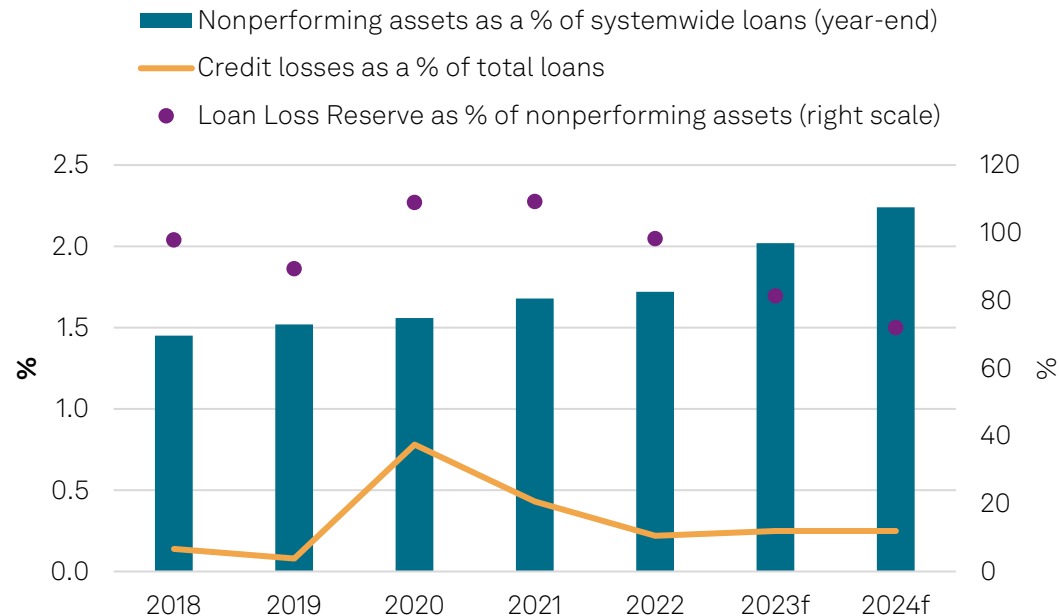
Systemwide domestic loans as a % of systemwide domestic core customer deposits by formula. LDR--Loans to deposit ratio. Source: S&P Global Ratings.

Note: CASA--Current and savings accounts. It includes demand and savings deposits. FD--Fixed deposits including Tawarruq deposits. Source: BNM, S&P Global Ratings.

Credit Losses To Stay Flat

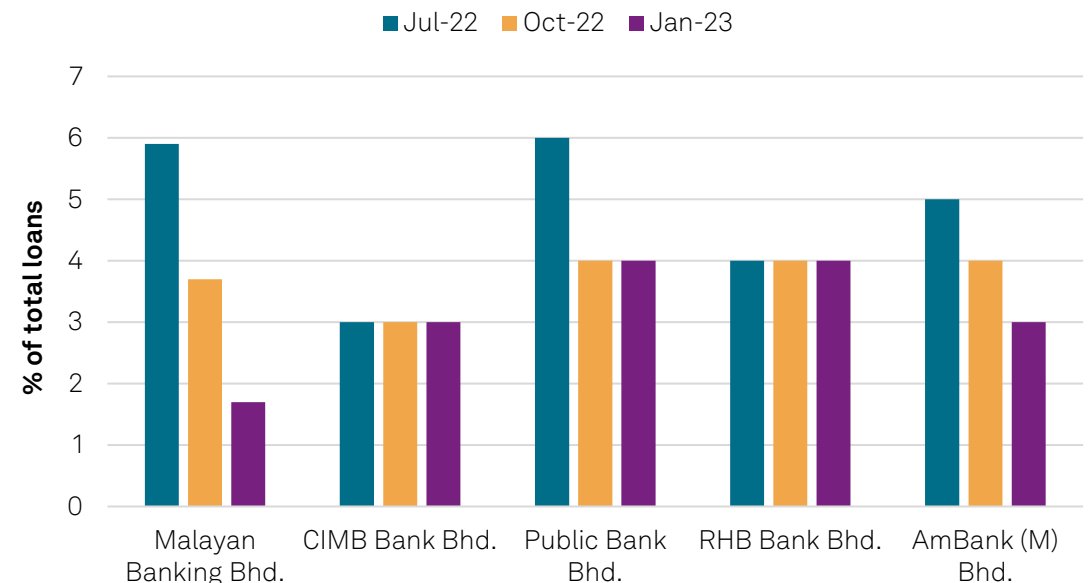
- Strong economic growth has helped borrowers to resume regular repayments. Write-offs and recoveries have also helped banks to maintain low nonperforming loans (NPL) ratios.
- Low-income households and SMEs are vulnerable to rising costs. This could lead to moderate increase in NPLs.
- Credit costs should stay at 20-30 bps as banks will remain cautious amid higher interest rates and global uncertainty.

NPLs To Rise Modestly



f--forecast. Source: S&P Global Ratings.

Restructured Book For Rated Banks Is Small At 3%-4%



Note: Data is for Malaysia operations. For CIMB Bank, data as of December 2022 and September 2022 is depicted above instead of January 2023 and October 2022 respectively. Source: Banks reports, S&P Global Ratings.

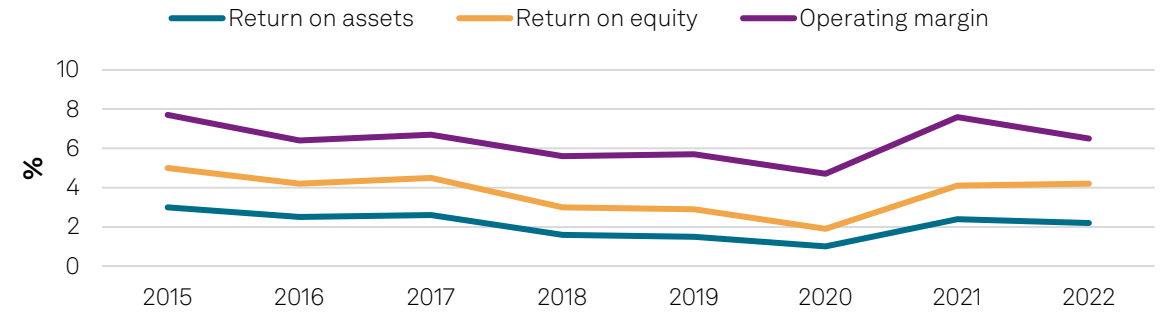
Corporate Sector Balance Sheets Are Robust

Corporate Portfolio Forms About 40% Of Total Bank Loans



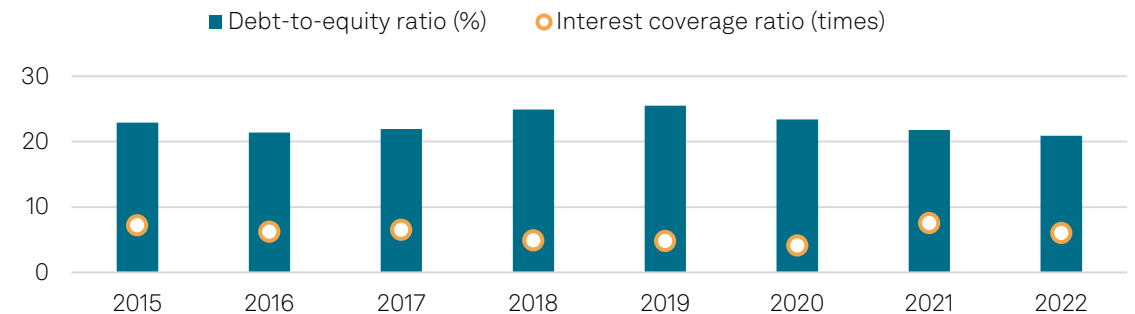
Data as of January 2023. Source: BNM, S&P Global Ratings.

Corporate Profitability To Moderate With Higher Input Costs



Source: BNM, S&P Global Ratings.

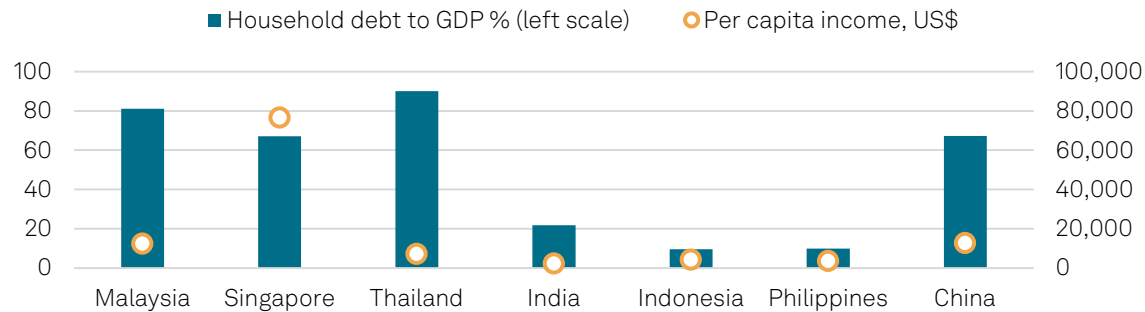
Interest Coverage Is Healthy For Malaysian Corporates



Source: BNM, S&P Global Ratings.

High Household Leverage Poses Some Risk

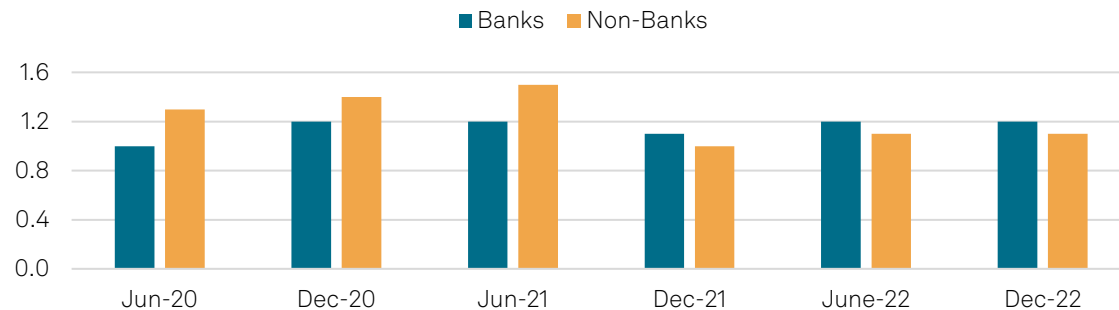
Stable Employment Conditions And Household Financial Assets Are Mitigating Factors



Source: S&P Global Ratings.

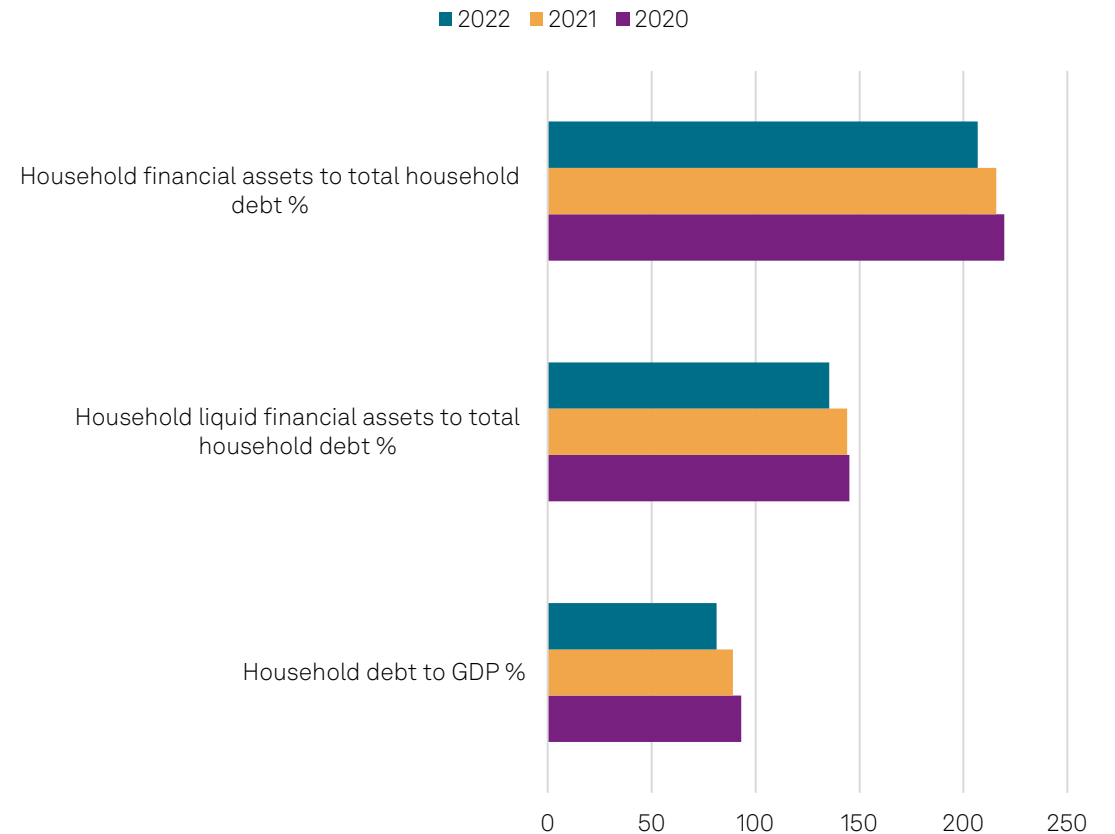
Household Sector NPLs Stay Low

Impaired loans ratio %



Source: BNM, S&P Global Ratings.

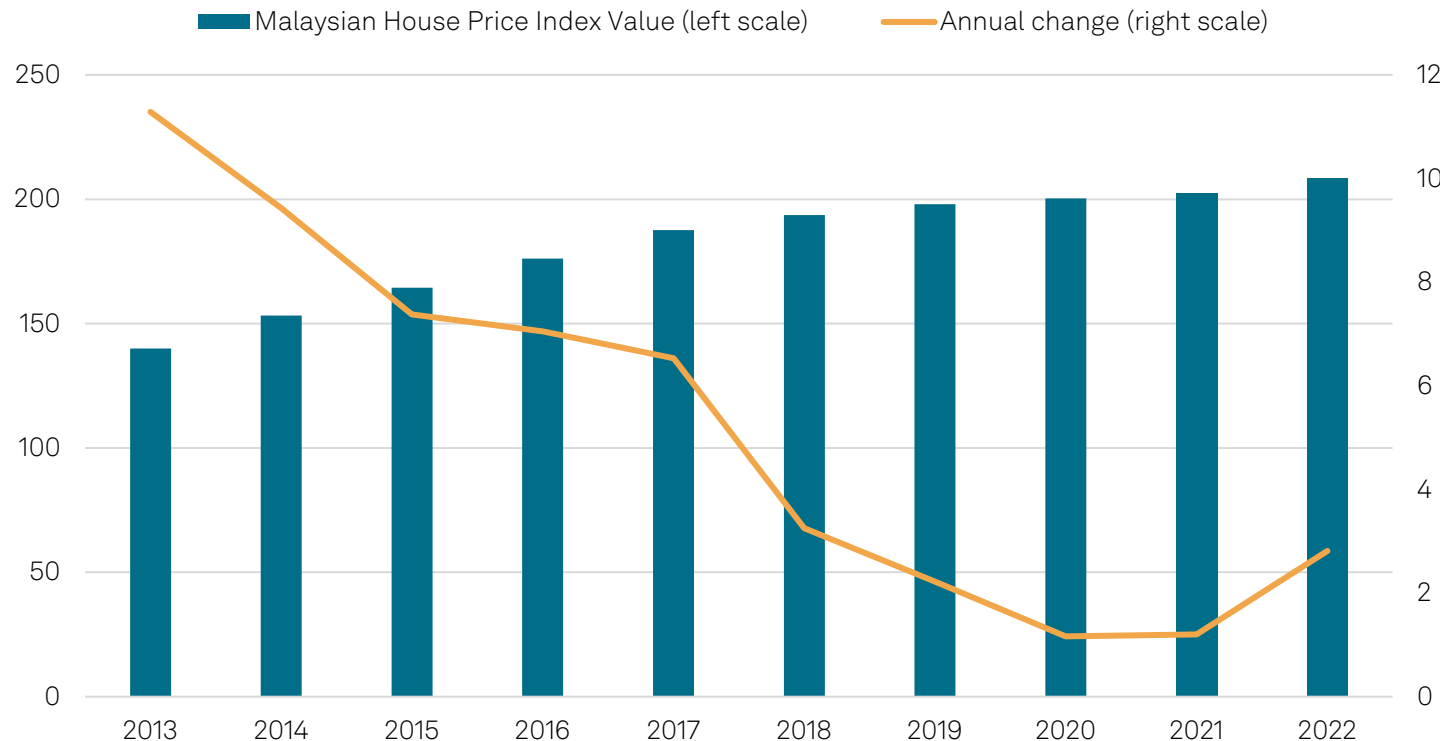
Household Financial Assets Are Over 2x Household Debt Despite Some Decline



Data as of January 2023 for household loans composition. Source: BNM, S&P Global Ratings.

Moderate Growth In House Prices Contain Imbalances

Malaysian House Prices Have Steadily Crept Higher

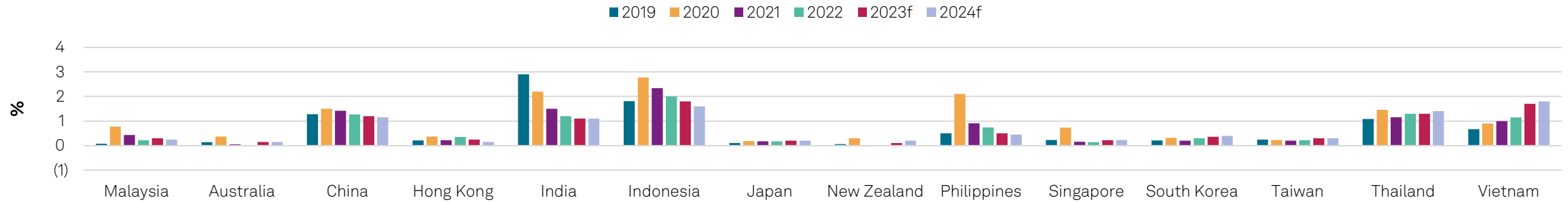


Note: 2022 data is provisional. Source: National Property Information Centre for 2010-2022, S&P Global Ratings.

- Domestic demand for residential properties will likely stay robust, reflecting stable economic conditions and low unemployment.
- Stamp duty discounts could sustain sales momentum despite rising inflationary and cost of borrowing pressures.
- Unsold properties, especially at the higher end of the market, remain a challenge. Home-ownership campaigns can potentially help to clear some stock but the process will continue to be gradual.

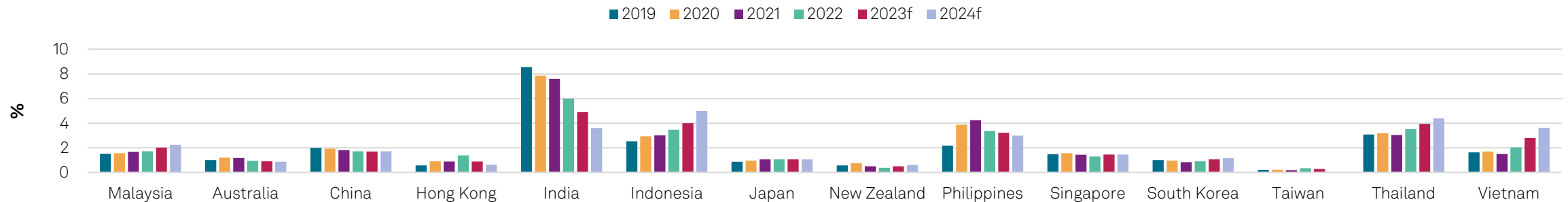
Asset Quality Will Stay Stronger Than Peers'

Credit Losses Are Lower Than Peers'



Note: Credit losses as a % of gross customer loans. 2022 data is estimated in case of actual data not available. For India and Japan, 2020 refers to fiscal year ended March 31, 2021. f--Forecast. Source: S&P Global Ratings.

NPLs Are Lower Than Most APAC Peers'

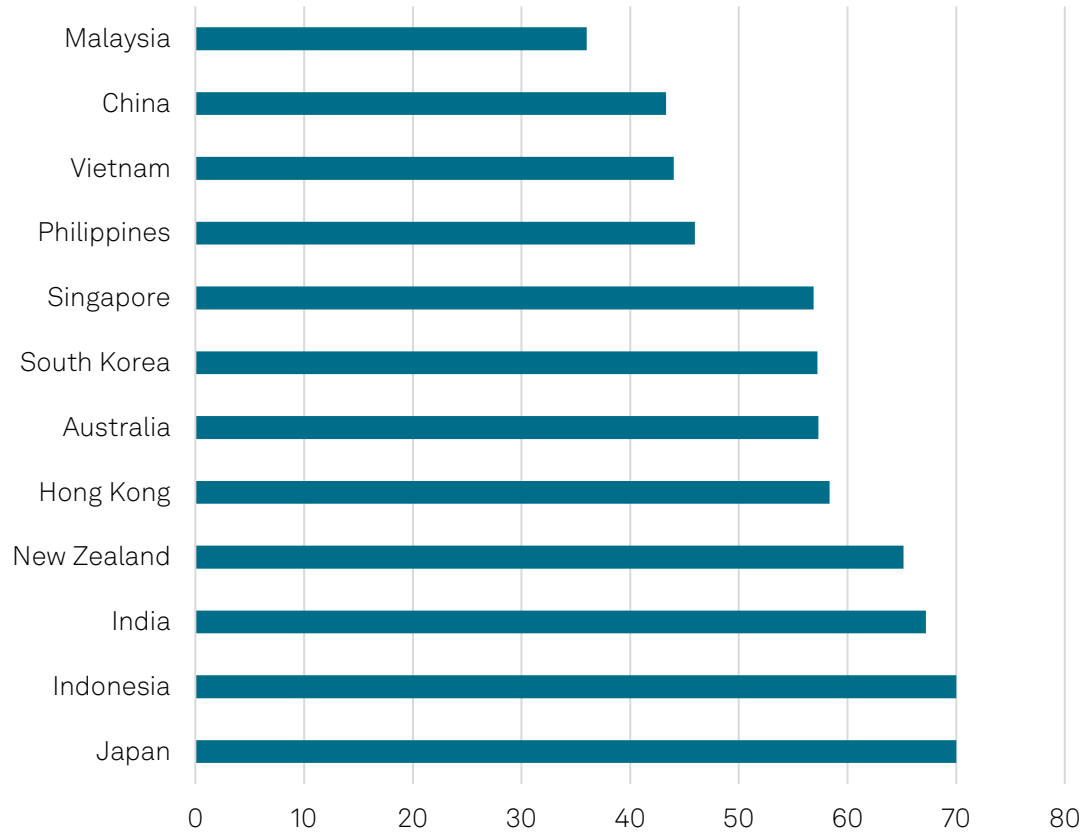


Note: Nonperforming assets as a % of systemwide loans (year-end). For India and Japan, 2020 refers to fiscal year ended March 31, 2021. 2022 data is estimated in case of actual data not available. f--forecast. Source: S&P Global Ratings.

Investment Books Pose Limited Risks

High Household Deposits Add Funding Stability

Household deposits as a % of systemwide deposits



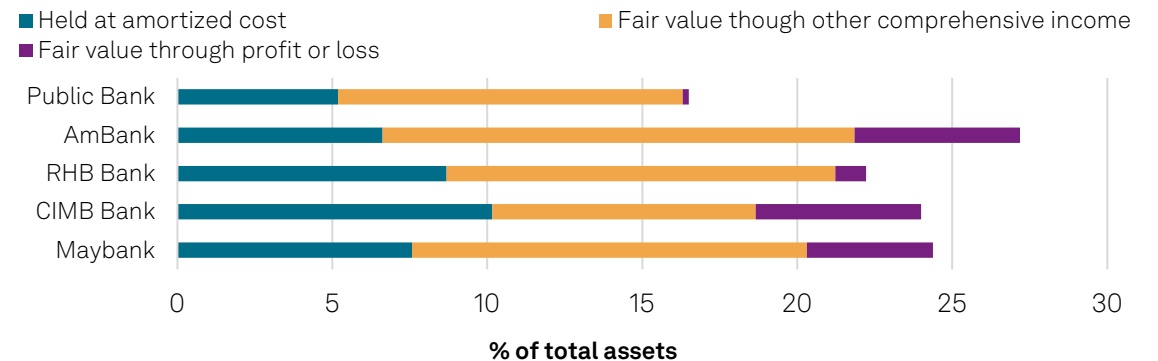
Source: S&P Global Ratings.

Government Securities Form About 50% Of Total Investments



Source: BNM, S&P Global Ratings. Data as of January 2023.

Fair Value Changes Are Recognized For Bulk Of Investments



Source: Bank reports, S&P Global Ratings.

Profitability Should Stay Flattish

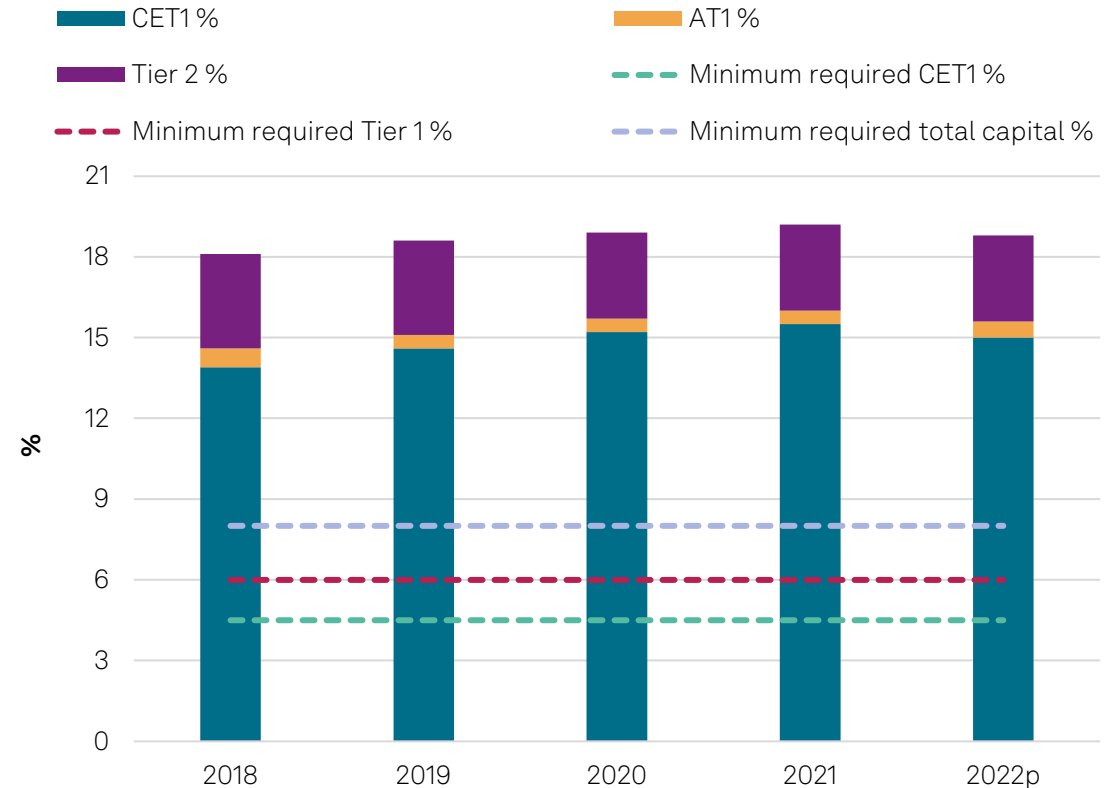
Tax Rate Normalization Will Balance NIM Compression



NIM--Net interest margin, f--Forecast. Source: S&P Global Ratings.

Capital Position Is Healthy

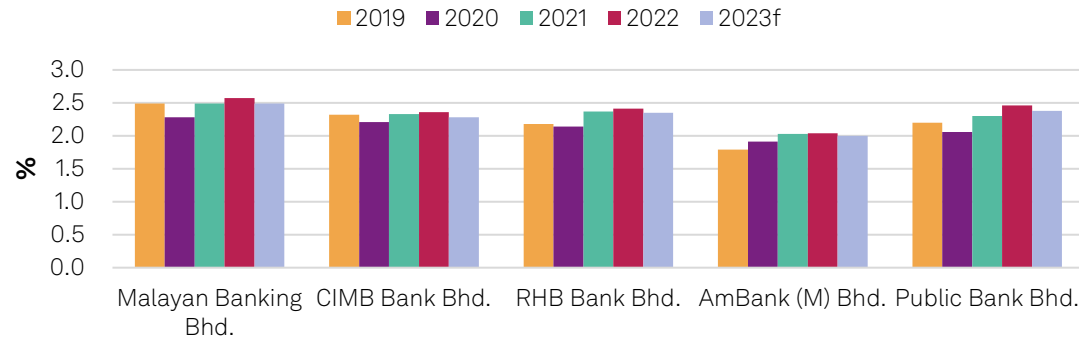
Moderate Growth And Dividends Support Capitalization



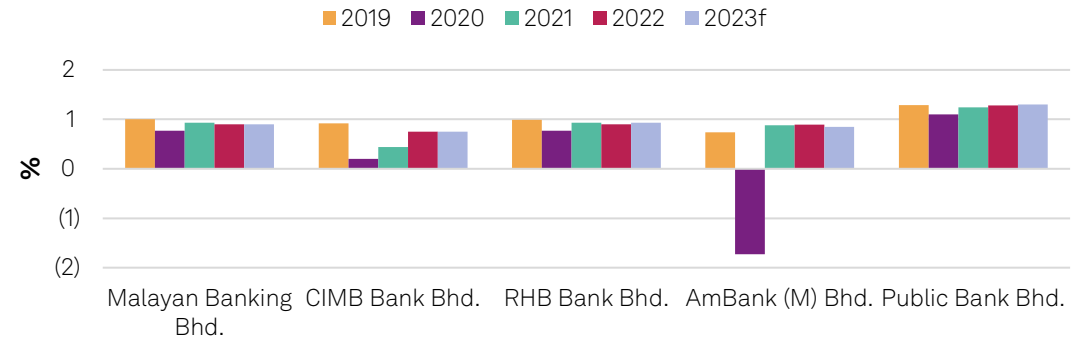
CET1 -- Common equity Tier 1 capital Ratio. AT1 -- Additional Tier 1. p--Provisional. Source: BNM, S&P Global Ratings.

Rated Malaysian Banks Report Card

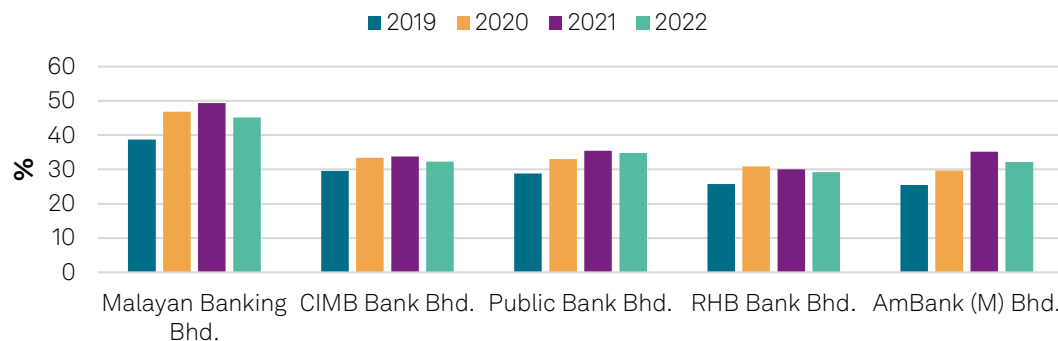
Margin Improvement Could Unwind



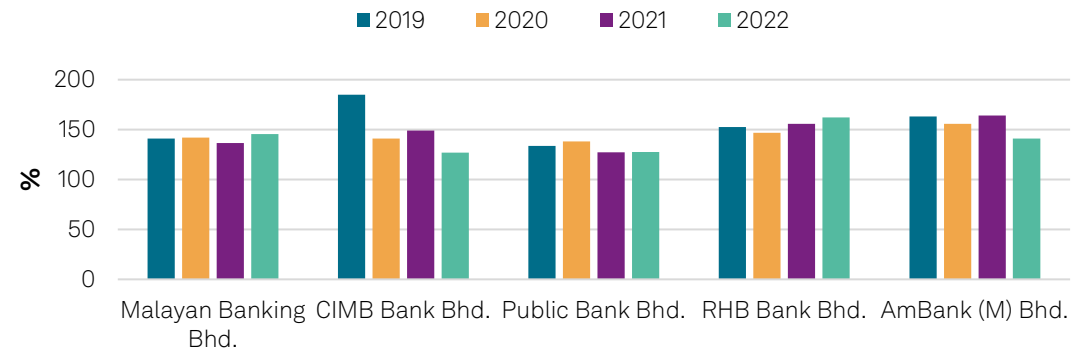
Return On Assets Likely To Stay Flat



CASA Declining From High Levels



Liquidity Coverage Ratios Remain Healthy

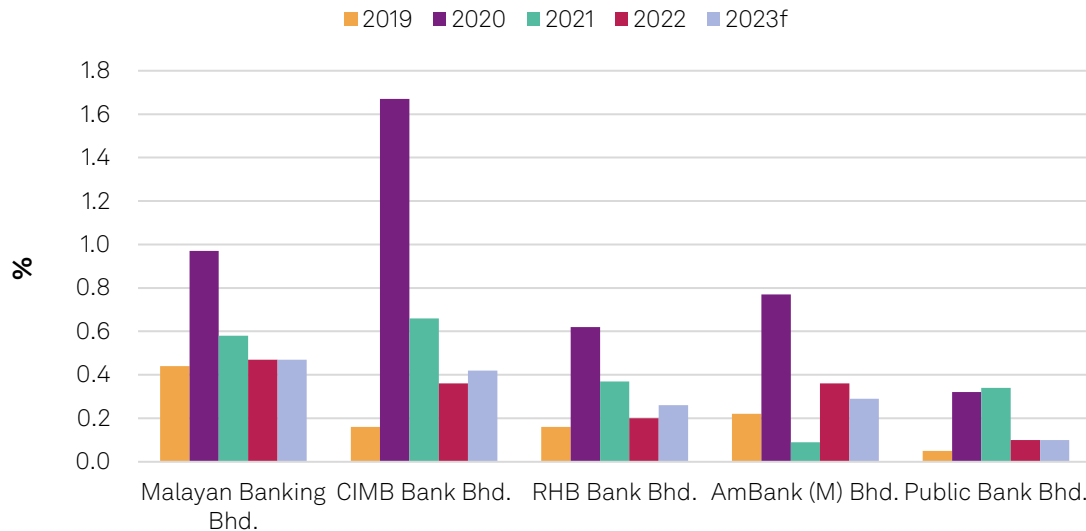


Note: CASA ratios are for Malaysia operations. For RHB, CASA ratio is for the group. For AmBank, fiscal year ends March 31. Source: S&P Global Ratings.

Asset Quality Risks Are Contained For Rated Banks

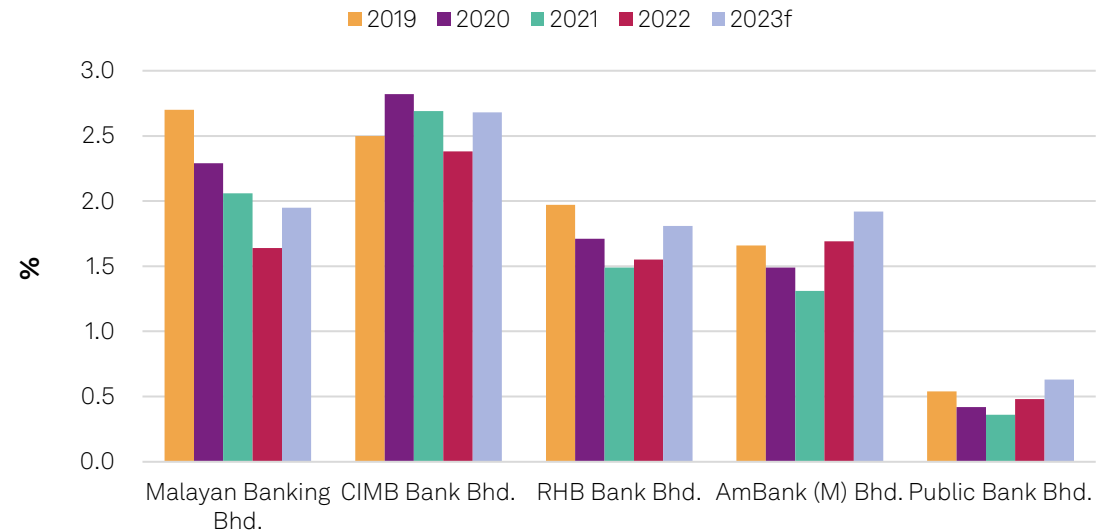
- Rated banks reported a moderate 10-25 bps increase in NPLs in 2022. This is lower than our initial estimates. SME, unsecured loans and corporate loans were the main drivers of higher reported NPLs.
- Credit costs for Malayan Banking Bhd. and CIMB Bank Bhd. are likely to stay higher than peers' at 40-50 bps, given their sizable exposure to markets with greater economic risk, such as Indonesia and Thailand.

Credit Losses Should Stay Flattish After A Decline



For AmBank, fiscal year ends March 31. Source: S&P Global Ratings.

NPLs Will See Moderate Increase



For AmBank, fiscal year ends March 31. Source: S&P Global Ratings.

Ratings Profile: Malaysian Banks

	Issuer credit rating/ outlook	Anchor	Business position	Capital & Earnings	Risk position	Funding and liquidity	SACP	Comparable rating analysis	No. of notches of support	Additional factor adjustment
AmBank (M) Bhd.	BBB+/ Stable	bbb	Adequate	Adequate	Adequate	Adequate/ Adequate	bbb	0	+1	0
CIMB Bank Bhd.	A-/ Stable	bbb	Strong	Adequate	Adequate	Strong/ Strong	a-	0	0	0
Malayan Banking Bhd.	A-/ Stable	bbb	Strong	Adequate	Adequate	Strong/ Strong	a-	0	0	0
Public Bank Bhd.	A-/ Stable	bbb	Strong	Strong	Strong	Strong/ Strong	a	-1	0	-1
RHB Bank Bhd.	BBB+/ Stable	bbb	Adequate	Adequate	Adequate	Adequate/ Adequate	bbb	0	+1	0

Data as of March 31, 2023. Source: S&P Global Ratings.

Asia-Pacific: BICRA Comparison

Country	BICRA Group	Economic risk trend	Industry risk trend	Economic Risk			Industry Risk		
				Economic Resilience	Economic Imbalances	Credit risk in the economy	Institutional framework	Competitive dynamics	Systemwide funding
Australia	3	Stable	Positive	VL	H	L	L	L	I
Bangladesh	9	Stable	Stable	VH	L	EH	EH	EH	I
Brunei	6	Stable	Stable	I	L	H	EH	I	L
Cambodia	9	Stable	Stable	VH	H	EH	EH	H	VH
China	6	Stable	Stable	I	H	VH	H	H	VL
Hong Kong	2	Stable	Stable	L	I	I	VL	L	VL
India	6	Stable	Stable	H	I	VH	H	H	L
Indonesia	6	Stable	Stable	H	L	VH	H	H	I
Japan	3	Stable	Stable	L	VL	L	I	H	VL
Korea	3	Stable	Stable	L	L	I	I	I	L
Malaysia	4	Stable	Stable	H	L	H	I	H	L
Mongolia	9	Stable	Stable	VH	H	EH	EH	H	VH
New Zealand	4	Negative	Stable	VL	H	I	I	L	H
Philippines	5	Stable	Stable	VH	L	H	H	I	I
Singapore	2	Stable	Stable	VL	I	I	VL	L	L
Taiwan	4	Stable	Stable	L	L	I	I	VH	VL
Thailand	7	Stable	Stable	H	H	VH	VH	H	L
Vietnam	9	Stable	Stable	VH	H	EH	EH	VH	I

- We classify Malaysia’s banking sector in group ‘4’ under our Banking Industry Country Risk Assessment (BICRA).
- Economic and industry risk trends are on stable.

Data as of March 30, 2023. Source: S&P Global Ratings.



Related Research

- [Economic Outlook Asia-Pacific Q2 2023: China Rebound Supports Growth](#), Mar. 27, 2023
- [Credit FAQ: Asia-Pacific AT1 Hybrids Investors: Understanding The Credit Suisse Fallout](#), Mar. 24, 2023
- [SVB Default And Asia-Pacific Banks: Secondary Effects Are The X-Factor](#), Mar. 16, 2023
- [Malaysian Banks Are Approaching 2023 With Caution](#), Dec. 05, 2022
- [Global Bank Country-By-Country Outlook 2023 Greater Divergence Ahead](#), Nov. 17, 2022
- [Banking Industry Country Risk Assessment: Malaysia](#), Oct. 10, 2022

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