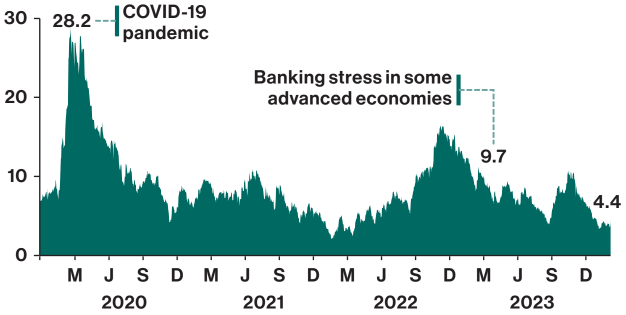
Key Highlights on
Financial Stability Review – Second Half 2023

Domestic financial stability was preserved despite volatile global markets

Market stress eased in December amid growing expectations that a turning point in US monetary policy path could be approaching

Financial Market Stress Index (FMSI)

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



Orderly domestic market conditions continued to be preserved, supported by several key factors

- Deep and liquid domestic capital markets
- Active market risk management and hedging strategies by financial institutions
- Resilient domestic institutional investors
- Manageable impact from exchange rate movements on banks, businesses and non-bank financial institutions

Financial institutions are well-capitalised with strong buffers to support financial intermediation

Banks continue to maintain strong capital and liquidity buffers while keeping prudent provisioning buffers in place

Value	Indicator	Jun. 2023
18.5%	Total Capital Ratio	*(Jun. 2023: 18.8%)*
160.9%	Liquidity Coverage Ratio	*(Jun. 2023: 154.7%)*
118.2%	Net Stable Funding Ratio	*(Jun. 2023: 117%)*
119%	Loan Loss Coverage Ratio[1]	*(Jun. 2023: 118.6%)*

Insurers and takaful operators remain well-capitalised, above the regulatory minima

Value	Indicator	Jun. 2023
RM38.6 billion	Excess Capital Buffers	*(Jun. 2023: RM38.9 billion)*
222.2%	Capital Adequacy Ratio	*(Jun. 2023: 226.4%)*

Businesses and households' debt repayment capacity continue to be preserved

Households

Households' debt-servicing capacity remains supported by favourable labour market and wage growth

Value	Indicator	Jun. 2023
35%	Median Outstanding Debt Service Ratio	*(Jun. 2023: 35%)*
1.4x	Median Debt-to-Income Ratio	*(Jun. 2023: 1.4x)*
4.8%	Stage 2 Loans Ratio	*(Jun. 2023: 4.3%)*
1.6%	Loans under Repayment Assistance	*(Jun. 2023: 1.8%)*

Businesses

Businesses remain resilient amid persisting operating headwinds

Value	Indicator	Jun. 2023
5.7x	Interest Coverage Ratio	*(Jun. 2023: 5.6x)*
26.2%	Share of Firms-at-Risk (Overall Business)	*(Jun. 2023: 29.2%)*
12.4%	Stage 2 Loans Ratio	*(Jun. 2023: 13.8%)*
5.4%	SME Loans under Repayment Assistance	*(Jun. 2023: 5.5%)*

[1] Including regulatory reserves

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

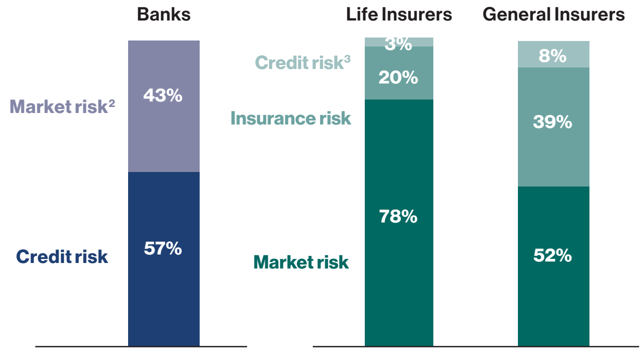
Stress test reaffirms financial institutions' ability to withstand adverse shocks and support economic recovery

Two adverse scenarios more severe than the 2020 pandemic were used to assess the resilience of financial institutions

Adverse Scenario 1	Sharp GDP contraction followed by a rapid recovery	Adverse Scenario 2	Prolonged but milder GDP contraction followed by a sluggish recovery

Credit and market risks remain the key drivers of losses for the banking system and insurance sector...

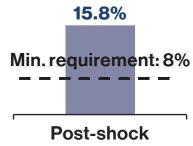
Key Loss Drivers under Adverse Scenario 2 (AS2) (2024e-2026e)



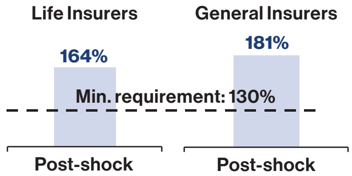
Note: Figures may not add up due to rounding.

...but post-shock capital ratios remained above regulatory minima

Banks: Total Capital Ratio under AS2



Insurers: Capital Adequacy Ratio under AS2



Box Article: The Imperatives for Strengthened Regulation and Supervision of Liquidity Risk in Malaysia

The 2023 global banking turmoil reinforces the importance of financial institutions adopting sound liquidity risk management practices

Initiatives to strengthen financial sector's liquidity resilience

- Issuance of policy document on Liquidity Risk
- Thematic review on implementation of policy documents on Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
- Enhancements to BNM's operational framework for extending liquidity assistance
- Strengthening regulatory standards on Interest Rate Risk / Rate of Return Risk in the Banking Book
- Collaboration with Perbadanan Insurans Deposit Malaysia to assess adequacy and credibility of banks' recovery plans

Box Article: Progress in Strengthening Climate Risk Management Practices

Financial institutions have made steady progress in strengthening climate risk management practices...

- Most progress on governance practices, with augmented internal governance and reporting structures as well as policies
- Climate risk considerations being integrated into existing sustainability frameworks, risk appetite and business strategies
- Using qualitative approaches to inform risk appetite and risk management policies, while building capabilities towards more quantitative approaches
- Short-term climate scenario analysis incorporates natural disaster event
- Advanced preparations to produce TCFD[4]-aligned disclosures

...while near-term regulatory and supervisory priorities will focus on several key measures

- Address fragmented approaches to managing climate-related risks
- Ensure financial institutions develop credible transition plans
- Ensure financial institutions produce climate disclosure that meets the needs of investors and stakeholders

e Estimated

[2] Market risk for banks includes revaluation losses on bonds held in the fair value through other comprehensive income (FVOCI) portfolio.
[3] Credit risk for insurers refers to losses from corporate bond defaults and reinsurance defaults.
[4] Task Force on Climate-Related Financial Disclosures.

Source: Bank Negara Malaysia