

Key Highlights on Financial Stability Review – Second Half 2021

Financial institutions remained well-positioned to support economic recovery

Banks maintained healthy capital and liquidity buffers to support financial intermediation

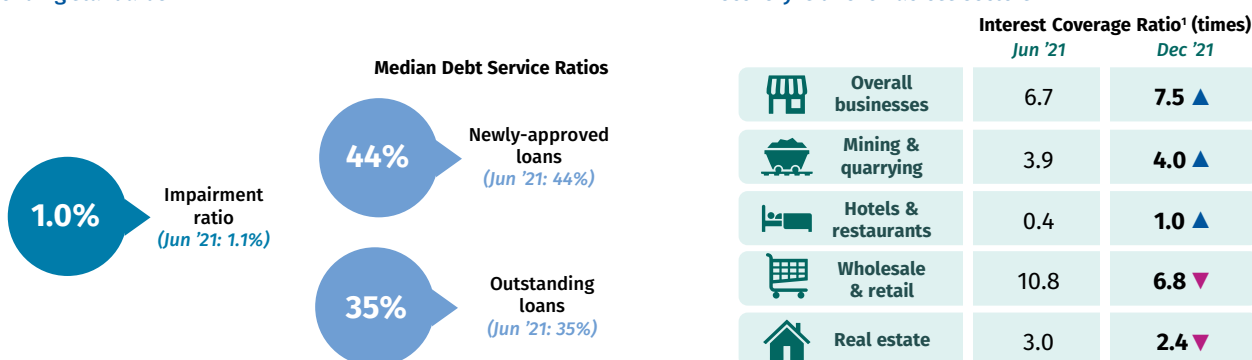
Insurers and takaful operators remained well-capitalised above regulatory minimum



Credit risks from the household and business sectors remain manageable, supported by improving economic conditions and on-going repayment assistance

Households: Asset quality continues to be underpinned by sound lending standards

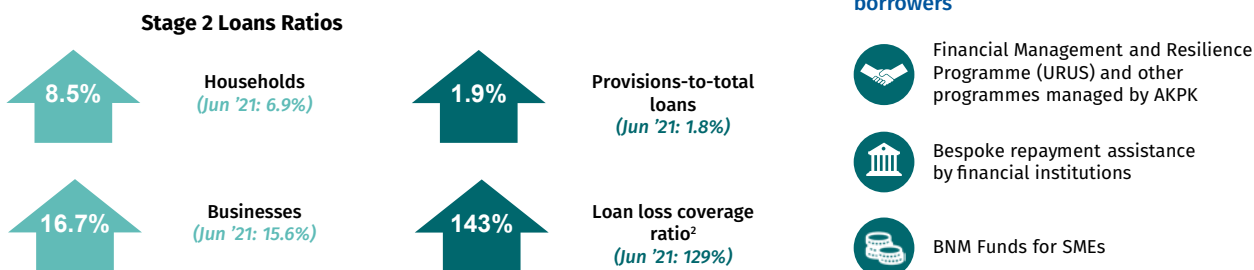
Businesses: Improvement in overall financial performance but recovery is uneven across sectors



Banks remain well-buffered against credit risks amid the transition to more targeted support measures

Sustained build-up of provisions against potential rise in impairments

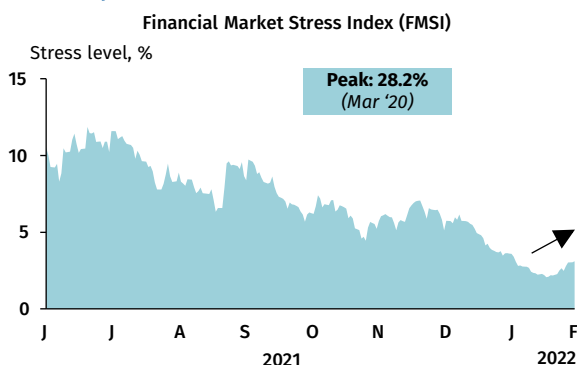
Continued assistance available for distressed borrowers



Domestic financial market conditions remained orderly despite increased volatility in global markets

Domestic stress levels have risen but remain well below the onset of the pandemic

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



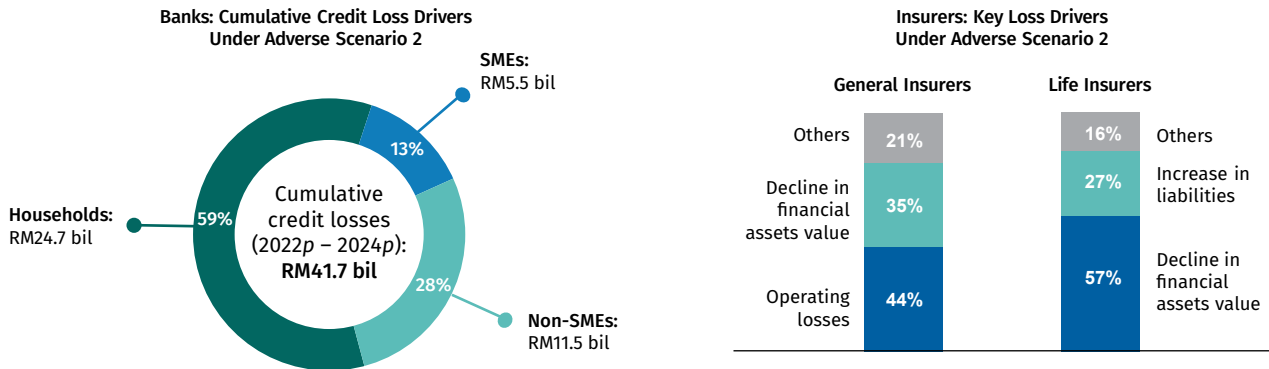
- Active market risk management and hedging strategies by financial institutions and corporates
- Deep and liquid domestic markets, supported by diverse investor base
- Exchange rate flexibility serves as an absorber from external and domestic shocks

¹ Prudent threshold for interest coverage ratio is two times.

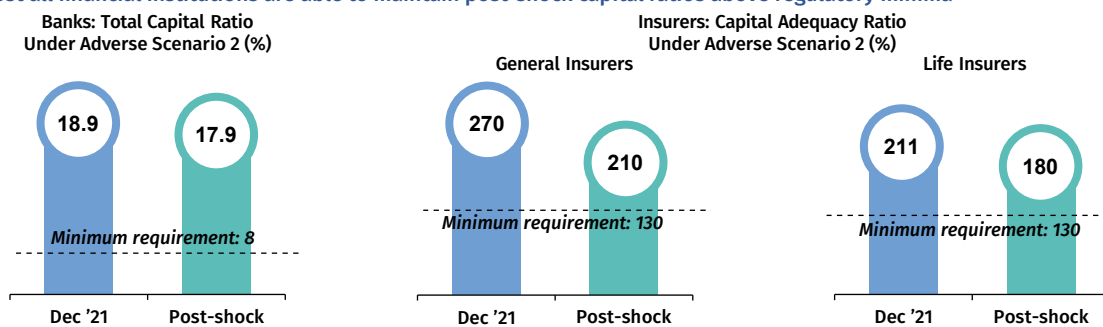
² Including regulatory reserves.

Stress tests affirm financial institutions' ability to support economic recovery

Credit and market risks remain key drivers of losses for banks and insurers, respectively, under the latest stress test which incorporates more conservative assumptions...

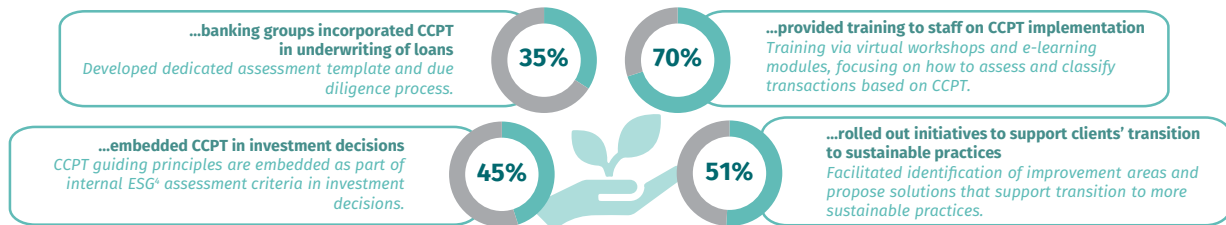


...but almost all financial institutions are able to maintain post-shock capital ratios above regulatory minima



Box Article: Implementation of the Climate Change and Principle-based Taxonomy (CCPT) in the Financial Sector

Steady progress of CCPT implementation³ among banking institutions, insurers and takaful operators

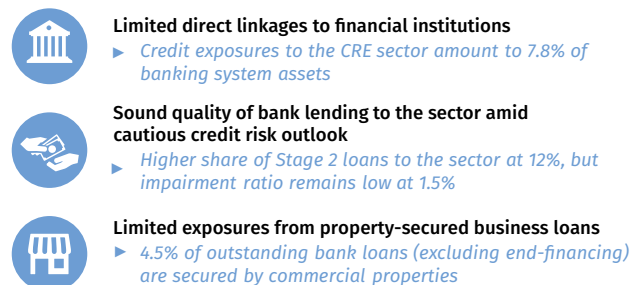


Box Article: Evolving Spaces in the Wake of the Pandemic: Vulnerabilities from the Commercial Real Estate (CRE) Sector

Pandemic-induced shifts in the CRE sector may worsen existing oversupply conditions...



...but risks to financial stability remain low



p Projected

³ Based on a stocktake exercise conducted on 38 banking groups/institutions, 53 insurers and takaful operators (life, family and general) and six reinsurers and retakaful operators.

⁴ Refers to Environment, Social and Governance (ESG).

Source: Bank Negara Malaysia