Fitch Affirms Maybank at 'A-', Hong Leong Bank at 'BBB+'

Fitch Ratings-Singapore-09 September 2015: Fitch Ratings has affirmed the ratings of Malayan Banking Berhad (Maybank) and Hong Leong Bank Berhad (HLBB). The Long-Term Issuer Default Ratings (IDRs) on Maybank and HLBB are 'A-' and 'BBB+' respectively. The Negative Outlook on Maybank has been maintained in light of rising risks to the macroeconomic outlook and the possible impact on Maybank's credit profile. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS
ISSUER DEFAULT RATINGS (IDRs) and VIABILITY RATINGS (VRs)
Maybank’s IDRs and VR reflect its strong domestic franchise, reasonable asset quality and earnings track record, adequate earnings, provisioning and capital loss-absorption buffers, sound liquidity position and good access to capital, with strong government-linked shareholders on the register.

HLBB’s IDRs and VR reflect its generally conservative risk appetite, with a loan portfolio that is largely secured and predominantly exposed to domestic retail borrowers. The ratings also incorporate the bank’s reasonable domestic franchise and earnings, provisioning, capital and liquidity buffers.

Risks to the overall operating environment and banking-sector asset quality have increased due to potential knock-on effects from a slowing Chinese economy, materially lower oil and other commodity prices and financial market volatility driven partly by weakening investor confidence. The latter development may not have a material direct impact on banks’ credit profiles in the short term, but could have greater implications for the domestic economy if prolonged.

Therefore, we believe it is appropriate to maintain the Negative Outlook on Maybank’s ratings in light of the more uncertain operating environment. That said, we believe the bank’s sound risk management framework and aforementioned credit strengths should enable it to weather a deterioration in operating conditions, unless it were to be very significant or extended.

The Negative Outlook on Maybank's IDRs over the past two years was driven by the Negative Outlook on ratings on Malaysia (A-/Stable), combined with risks arising from the sustained increase in household leverage over the past several years. The Outlook on the sovereign ratings was revised to Stable in June 2015, which removes one source of pressure on Maybank's ratings. In Fitch’s view, the regulator has also largely been successful at reining in the riskier elements of household borrowing, although household leverage remains elevated.
HLBB's IDR of 'BBB+' remains on Stable Outlook as we believe the bank's lower risk appetite and improving capital buffers help to mitigate potential asset-quality risks.

Fitch expects HLBB's capital position to improve following a proposed stock rights issue of up to MYR3bn. This amount is equivalent to 2.6% of risk-weighted assets at end-June 2015. If the full amount is raised, the bank's fully loaded core equity Tier 1 (CET1) ratio would rise to about 11.7% on a pro-forma basis from 9.1% at end-June 2015. The additional capital buffer should help to support the bank's credit profile amid more challenging operating conditions ahead.

DEBT RATINGS
The ratings on the senior notes of Maybank and HLBB are the same as the banks' respective IDRs. This is because the notes constitute direct, unconditional and unsecured obligations of the banks, and rank equally with all their other unsecured and unsubordinated obligations.

Maybank's legacy Basel II-compliant subordinated notes are rated one notch below the VR to reflect their subordinated status relative to claims from senior unsecured creditors, and the absence of any going-concern loss-absorption mechanism.

Maybank's Basel II-compliant hybrid securities are rated four notches below the VR, reflecting the deep subordination status of the securities and the presence of going-concern loss-absorption mechanisms, but also look-back provisions in the optional dividend deferral.

SUPPORT RATINGS (SRs) AND SUPPORT RATING FLOORS (SRFs)
Maybank's and HLBB's SRs and SRFs reflect Fitch's view that extraordinary state support is highly likely for both banks, if needed.

Maybank's SR of '2' and SRF of 'BBB' reflect its extremely high systemic importance in Malaysia due to its large domestic deposit base (around 18% of domestic deposits). Fitch believes the state's indirect ownership in Maybank via various state-owned funds also increases the sovereign's propensity to provide extraordinary support to the bank.

HLBB's SR of '2' and SRF of 'BBB-' reflect its systemic importance as the fifth-largest local bank, accounting for around 8% of system-wide deposits.

RATING SENSITIVITIES
IDRs AND VRs
An upgrade of the ratings on the two Malaysian banks is unlikely in the near term, in light of the more challenging operating conditions domestically and abroad.

Negative ratings action may occur for both banks if rising macroeconomic risks lead to a material
deterioration in the banks' financial profiles, such as if asset quality were to worsen to an extent that jeopardises the banks' capital generation and loss absorption buffers, or if their funding and liquidity positions were to deteriorate significantly due to market conditions.

The Outlook on Maybank could be revised to Stable if Fitch perceives that risks to the operating environment have stabilised and attendant risks to the bank's own credit profile have diminished. This could occur with greater evidence that the economy is able to adjust to lower commodity prices and slowing China growth without a severe deterioration in growth, employment conditions and asset quality.

Maybank's Foreign-Currency IDR is at the same level as the sovereign, and the sovereign's ratings and Outlook are likely to remain an upper bound on the ratings and Outlook on the bank.

SUPPORT RATINGS (SRs) AND SUPPORT RATING FLOORS (SRFs)
A change in the government's ability to provide extraordinary support would affect the SRs and SRFs of both banks. This could arise from a change in the sovereign ratings, although Fitch notes that the Outlook on the sovereign ratings was revised to Stable from Negative earlier in the year.

The SRs and SRFs are also sensitive to any change in the government's propensity to extend timely support. One development that could lead to an adverse change in this area, for instance, is global initiatives to reduce implicit state support available to banks, although Fitch views this to be of lower risk for Malaysian banks in the near term.

DEBT RATINGS
The ratings on the banks' senior notes are sensitive to any changes in their respective IDR.s.

The ratings on Maybank's Basel II subordinated notes and hybrid securities are sensitive to changes in the VRs.

The rating actions are as follows:

Malayan Banking Berhad
- Long-Term Foreign-Currency IDR affirmed at 'A-'; Outlook Negative
- Short-Term Foreign-Currency IDR assigned at 'F2'
- Long-Term Local-Currency IDR affirmed at 'A-'; Outlook Negative
- Viability Rating affirmed at 'a-
- Support Rating affirmed at '2'
- Support Rating Floor affirmed at 'BBB'
- Senior notes affirmed at 'A-
- Basel II-compliant subordinated notes affirmed at 'BBB+'
- Basel II-compliant hybrid Tier 1 securities affirmed at 'BB+''
Hong Leong Bank Berhad
- Long-Term Foreign-Currency IDR affirmed at 'BBB+'; Outlook Stable
- Short-Term Foreign-Currency IDR affirmed at 'F2'
- Viability Rating affirmed at 'bbb+'
- Support Rating affirmed at '2'
- Support Rating Floor affirmed at 'BBB-'
- Senior debt affirmed at 'BBB+

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Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=990521)

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