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RAM Ratings assigns A2/P1 ratings to MBSB

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RAM Ratings has assigned respective long- and short-term financial institution ratings of A2 and P1 to Malaysia Building Society Berhad (“MBSB” or “the Company”); the long-term rating has a stable outlook. The ratings benefit from a certain degree of uplift from our expectation of continued support for MBSB from the EPF, which owns a 69.9%-stake in the Company. The EPF’s solid backing is underlined by its funding lines to MBSB and subscription of the Company’s past rights issues. In 1Q 2013, the EPF reiterated its support when it fully exercised its MBSB warrants, thereby bringing the Company’s estimated overall risk-weighted capital adequacy ratio in line with regulatory standards.

MBSB is among the key players in personal financing for civil servants, with approximately 10% of this market. The Company benefits from its access to direct salary deductions administered by Biro Perkhidmatan Angkasa and the Accountant General Offices of various states. MBSB is defined as a Scheduled Institution under the Banking and Financial Institution Act 1989, and is exempt from direct regulatory oversight. However, we understand from MBSB that some of the Company’s operations are in line with the banking industry’s practices.

MBSB’s financing portfolio has tripled over the last 3 years, driven by the rapid growth of personal financing. As at end-December 2012, personal financing accounted for around 66% of its entire financing portfolio. Notably, almost all of the repayments on its outstanding personal financing facilities are collected through salary-deduction schemes, thereby moderating the risk of unsecured financing and a largely unseasoned portfolio. As at end-December 2012, the gross impaired-financing (“GIF”) ratio of MBSB’s personal financing portfolio stood at a fairly healthy 1.5%.

That said, MBSB’s credit profile remains weighed down by its weak overall asset quality, skewed by the legacy loans in its residential and property-development financing portfolios that were originated more than 10 years ago. While showing an improving trend, the Company’s GIF ratio was still high at 11.2% as at end-December 2012. We note that new management initiatives since 2009, specifically its focus on risk management and operational enhancements, have helped maintain the improvement in its asset quality. Furthermore, our analysis of MBSB’s GIF performance vis-à-vis newer loans reveals ratios that are closer to industry norms. Together, these initiatives should help lift MBSB’s asset quality.

Nonetheless, the funding and capital positions of MBSB are deemed weaker relative to those of banks in our rated portfolio. The Company’s financing-to-deposit ratio has been hovering above 100% in the last few years – one of the highest observed. That said, MBSB has expended effort on enlarging its deposit base and diversifying its funding sources. While MBSB’s aggressive growth highlights its risk appetite, we derive comfort from its broader strategic plans to address its capitalisation, governance and risk management which, in our view, should put it on a steadier footing to support growth.

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