

# Credit ratings for M'sian banks stable

## Fitch suggests players adjust their capital structure

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**PETALING JAYA:** Fitch Ratings sees Malaysian banks credit ratings as generally stable, but suggests that some institutions adjust their capital structure to maintain their ratings strength.

Fitch senior director of financial institutions Ambreesh Srivastava, who is based in Singapore, said on balance most Malaysian banks seemed still stable, due to considerable loans buffer, high non-performing loan (NPL) reserve levels and satisfactory capital position.

"Profitability until September 2008 has only declined marginally, thanks to the lower credit costs on the back of NPL sales and continued loans recovery that Malaysia have been registering during 2008," he told a teleconference yesterday.

"The return on assets as at mid-level for end-2008 is still predicted

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**AMBREESH SRIVASTAVA**

to be not substantially lower than at end-2007," he said. However, 2009 would be a different story.

Significantly lower gross domestic product growth and the possibility even of a recession would likely result in a broad-based deterioration in asset quality in the banking sector after several years of continuous improvement, he said.

"In light of a worsening unem-

ployment scenario, we are predicting an NPL ratio of around 5.5% in 2009 compared with 4.3% in 2008," he said.

Even so, Fitch hopes that stimulus measures and likely interest reduction in 2009 will mitigate the effects of a deterioration of asset quality.

On a positive note, he said: "We think it is noteworthy that since the days of the Asian financial crisis of 1997 and 1998, the associated risk arising from concentrated loan growth has become less of a concern for Malaysian banks.

"Although in the unlikely scenario of several corporate bankruptcies, downside risk to asset quality would obviously increase."

Malaysian banks had a higher provision coverage than before, with an average NPL coverage of 85% in 2008.

All things considered, Ambreesh estimated that NPLs would have to increase sharply to 11% or 12% from

4% at present for capital ratios to go below the regulatory minimum.

Such a massive deterioration over a short period of NPLs seemed fairly unlikely at this stage, he said.

"The capital buffer and the fact that we don't expect asset quality to go down in the next 12 months gives us the confidence to maintain a stable outlook for most of the banks that operate in Malaysia," he said.

Nevertheless, Fitch believed that some specific financial institutions in Malaysia might need to bolster their core equity positions to preserve their credit profile.

"Take for example Malayan Banking, which has been on ratings watch for some time after three back-to-back acquisitions in 2008 alone," he said.

To improve its core capital after so many acquisitions, it might want to consider raising more common equity "that if successful would support its credit rating," he added.