DEVELOPMENTS IN THE BANKING SYSTEM

The financial position of the banking system remained strong in the third quarter. Asset quality improved further amidst an expansion in lending activities by the banking system, which continued to support economic growth. The level of capitalisation and profitability remained strong, despite a marginal decline in the level of capitalisation, following the completion of the mergers between commercial banks and finance companies (Bafin mergers). The level of capitalisation is however, expected to strengthen upon the inclusion of audited profits.

Capitalisation remains high amidst mergers

The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system declined to 13.8% (-0.5 ppts) and 11.3% (-0.4 ppts) respectively. This was attributed to lower capital base (-RM1.7 billion) as a result of the Bafin mergers and higher total risk weighted assets (+RM5.8 billion) following higher lending activities.

Capital Position Remained Strong

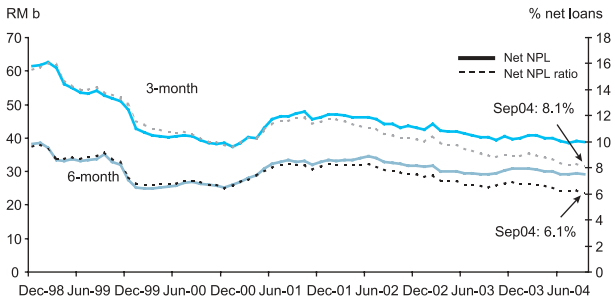
	2003		2004		
	3Q	4Q	1Q	2Q	3Q
Capital					
CCR (%)	10.9	11.1	11.0	11.7	11.3
RWCR (%)	13.4	13.8	13.7	14.3	13.8

Profitability remains favourable

The profitability of the banking system remained favourable with RM2.8 billion pre-tax profit recorded during the third quarter, compared to RM2.4 billion in the corresponding quarter of last year. Consequently, the annualised return on average assets and equity of the banking system improved to 1.3% and 15.4% respectively (3Q 2003: 1.2% and 14.3%).

Further decline in NPLs

Banking system: Non-performing loans



Net non-performing loans (NPLs) based on the 6-month classification continued the downward trend to RM29.1 billion to account for 6.1% of total net loans, the lowest level post-Asian crisis (2Q 2004: 6.2%). The improvement was largely due to lower incidences of new NPLs and higher write-offs. Similarly, the net NPLs based on 3-month classification improved to RM38.8 billion or 8.1% of total net loans (2Q 2004: 8.4%).