DEVELOPMENTS IN THE BANKING SYSTEM

The financial position of the banking system remained sound in the second quarter of 2004 with a high level of capitalisation, enhanced profitability and improved asset quality. The strengthened financial position enabled the banking system to continue to support economic growth through expanded lending activities.

The high level of capitalisation sustained

The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system improved to 13.8% and 11.3% respectively. The stronger capital position was attributed to the higher growth of RM3.1 billion (+4.3%) in the capital base, mainly due to capital raising exercises through issuance of subordinated debt papers as well as inclusion of audited profits by a number of banking institutions. Meanwhile, increase in lending activities has led to higher risk-weighted assets by RM17.1 billion (+3.2%).

Capital Position Remained Strong

	2003				2004	
	1Q	2Q	3Q	4Q	1Q	2Q
Capital						
CCR (%)	11.0	11.1	10.9	11.1	11.1	11.3
RWCR (%)	13.2	13.7	13.4	13.7	13.7	13.8

Enhanced profitability on account of stronger income

Pre-tax profit of the banking system increased further by RM0.2 billion (+6.7%) to RM3.3 billion during the second quarter. The increase in pre-tax profit was driven by higher net interest income (+RM141.8 million), fee-based income (+RM55 million) and net investment gains (+RM274.9 million). The increase in revenue was, however, partially moderated by higher operating costs (+RM134.9 million or +4.7%). The annualised return on average assets and equity of the banking system stood at 1.6% and 18.7% respectively (1Q 2004: 1.5% and 17.9%).

Further improvement in asset quality

Net non-performing loans (NPLs) based on the 6-month classification improved by 3.7% to RM29.3 billion at end-June 2004. The improvement was due mainly to higher recoveries and reclassifications and lower incidences of new NPLs. As a result of lower NPLs and higher loan growth, the net NPL ratio declined by 0.5 percentage point to 6.2% at end-June 2004, the lowest level since 1998. Similarly, the net NPL ratio based on the 3-month classification declined to 8.4% (Mar 2004: 9%).

Banking system: Non-performing loans

